



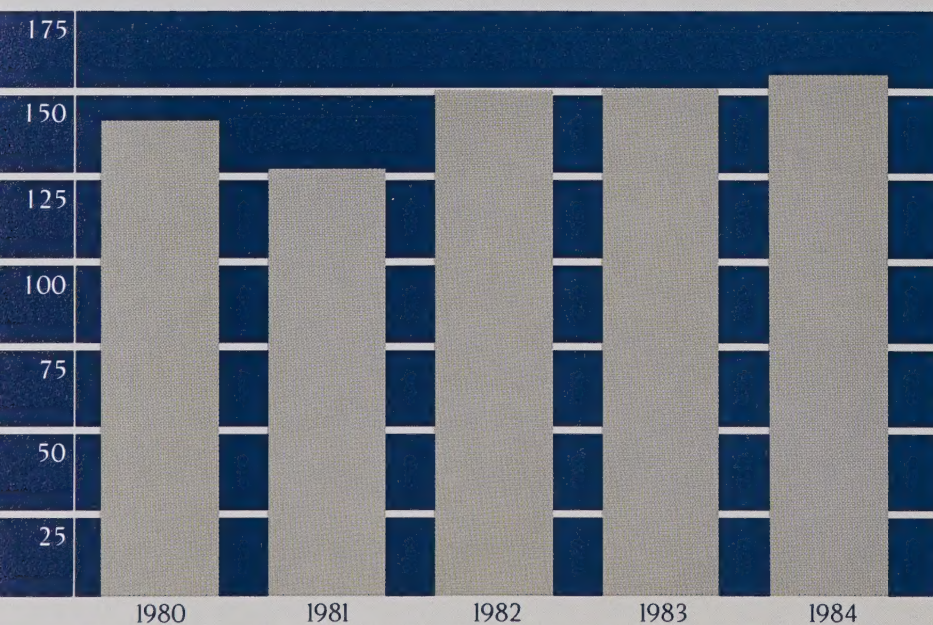
Annual Report 1984



CONSOLIDATED FINANCIAL HIGHLIGHTS

(Thousands of dollars except for per share data)

Year Ended December 31	1984	1983
Operating revenue	\$3,793,533	\$3,823,005
Net operating income	\$ 676,988	\$ 544,063
Income before extraordinary items	\$ 155,268	\$ 150,733
Extraordinary items	\$ 48,082	\$ (115,605)
Net income	\$ 203,350	\$ 35,128
Earnings (loss) per common share		
Before extraordinary items		
Basic	\$ 0.63	\$ 0.60
Fully diluted	\$ 0.60	\$ 0.58
After extraordinary items		
Basic	\$ 1.02	\$ (0.38)
Fully Diluted	\$ 0.77	\$ (0.38)
Dividends paid per Class "A" common share	\$ 0.40	\$ 0.40
Average number of common shares outstanding (thousands)	123,203	118,478



CONSOLIDATED NET INCOME FOR THE YEAR*

* Before extraordinary items

(Millions of dollars)



NOVA, AN ALBERTA CORPORATION, incorporated by special act of the Province of Alberta, is a major Canadian energy company headquartered in Calgary.

Incorporated in 1954 to build, own and operate a province-wide natural gas transportation system, NOVA has expanded its business base in recent years, concentrating on additional resource development and petrochemical activities.

The Company is now active in gas transportation and marketing, petroleum, petrochemicals, manufacturing, consulting and research. We operate primarily in Canada, but our products and services are marketed worldwide.

NOVA is a public, shareholder-owned company trading on the Toronto, Montreal and Alberta stock exchanges. Assets total \$6.4 billion, and the NOVA companies currently employ about 7,800 people.

1984 HIGHLIGHTS

The Company marked several significant events during the year:

- Two new petrochemical plants commenced operation.
- Petroleum production was up, and 67%-owned Husky Oil Ltd. reported record earnings. A large extraordinary gain was realized through the sale of Husky's subsidiary in the United States.
- Husky's Bi-Provincial Project was approved by the governments of Canada, Alberta and Saskatchewan.
- Contracts for natural gas exports were renegotiated and resulted in record transmission volumes late in the year.

ABOUT THE COVER PHOTOS

Front cover: An employee operates a manual valve control at NOVA's largest compressor station near the Alberta/Saskatchewan border. Experience gained by NOVA personnel in building and operating this station and the 8,400-mile Alberta gas transmission system is the foundation for our international consulting work.

Back cover: A Calgary sunset reflects off the stainless steel exterior of NOVA's corporate headquarters.

ANNUAL MEETING

Thursday, May 9, 1985, 3:30 p.m.
NOVA Corporate Headquarters
801 Seventh Avenue S.W.
Calgary, Alberta

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Dollar amounts in this report are stated in Canadian dollars unless otherwise specified.

Measurements throughout the report are stated in imperial units, as most of our shareholders have expressed a preference for this system.

REPORT TO SHAREHOLDERS

The previous report to shareholders emphasized the resumption of basic earnings per share growth as a main objective for 1984. Notwithstanding low prices from goods we produce, a modest growth to 63¢ per share before extraordinary items, or 5% over 1983, was accomplished.

The year's net income before extraordinary items was again a record at \$155 million. Consolidated net income after extraordinary items reached \$203 million. As anticipated in last year's report, there were no new common or convertible equity issues required during the year. The total number of common shares outstanding was increased only by participation in the Dividend Reinvestment and Share Purchase Plan (3.6 million shares) and some routine conversions to common shares of the 6-3/8% Preferred Shares (0.9 million shares). Therefore, the improved net income on a fully diluted basis was 60¢ per share before extraordinary items, or 77¢ after extraordinary items.

Income before interest, taxes and minority interest increased substantially from petroleum operations, routinely from gas transportation and marketing, and lost ground from manufacturing in 1984. A small increase in such income came from petrochemicals, but this was more than offset by higher interest expense on continuing petrochemical investment in the year.

Another objective accomplished in 1984 was reduction in consolidated long term debt. A net reduction of about \$500 million was realized after taking into account some \$300 million of new debt for petrochemical plant.

The main debt reduction occurred in the second quarter through the sale of Husky Oil Company, the U.S. operating subsidiary of Husky Oil Ltd. (67% owned by NOVA). That transaction also provided an extraordinary gain to NOVA of \$132.6 million after provision for taxes and minority interest. At the end of 1984, Husky still has for sale some remaining refining, marketing and transportation assets in the United States, but completion of that second transaction is not expected to materially affect NOVA in 1985.

For year-end 1984, the Company also decided to take some write-downs, reducing the extraordinary gain for the year to a net of \$48.1 million. The principal reasons for these write-downs were the continuing lack of profitability in our 50%-owned polyvinyl chloride manufacturer, Diamond Shamrock Alberta Gas, and costs

associated with the design and development of a prototype mobile terminal in our telecommunications joint venture, NovAtel Communications Ltd. The write-down relating to those activities was \$34.6 million after provision for taxes.

A write-down was also recorded against the cumulated carrying cost of investments being offered for sale, which included unrealized foreign exchange losses from the decline of the Italian lira. An amount of \$49.9 million has been provided for with respect to the estimated net realizable value of all such investments held for sale.

The write-down decisions could be described as aggressive, but were considered prudent by the Board in the light of continuing difficult international market conditions for several of our products.

IMPORTANT 1984 EVENTS

Some of the more important events that occurred in 1984 are described briefly below:

- The Company's major petroleum investment, through Husky Oil Ltd., was highly productive and had a record profit performance. Husky also achieved agreement in June with the federal, Alberta and Saskatchewan governments on its \$3-billion bi-provincial heavy oil production and upgrading project.

The Bi-Provincial Project is of enormous importance to the long term marketing of heavy oil production in the region extending from Lloydminster/Cold Lake, Alberta, to North Battleford, Saskatchewan. It is the largest new process industry investment started in Canada in 1984 and its industrial and regional benefits are well recognized. Husky is the largest heavy oil producer and marketer in Canada, and its operating and marketing expertise for this increasingly important resource is being well employed.

- In Canadian exploration, Husky continued its program of earning into Canada Lands in some of the most prospective areas of the Atlantic offshore and the Beaufort.

- The movement of governments in Canada towards market-sensitive pricing for natural gas exports in 1984 considerably restored the amounts of gas being taken by U.S. customers. One of the results of this action was an increase in revenues to Alberta producers and, of course, to the Alberta and federal governments. NOVA directly and through Pan-Alberta Gas Ltd. (50.005% owned) was heavily involved in this development.

- The results of the move to market-sensitive gas pricing have also prompted Canadian and U.S. pipeline and gas marketing companies to look more quickly at the possibility of future increments of natural gas supply to the United States. The Company believes there will be large new demands for Canadian gas by about 1988.

In that connection, Foothills Pipe Lines (Yukon) Ltd. (50% owned) has recently become the Canadian sponsor of a joint U.S./Canadian proposal named the CAN-AM Pipeline Project. This project would use the low-cost expansibility of the Alaska Highway Gas Pipeline Phase I system, as well as see some new facilities constructed in both countries. An application for the CAN-AM project was filed with the appropriate agencies in Canada and the United States in early 1985. The commencement of such a project would produce another round of major expansion on our Alberta gas transmission system and more business for Pan-Alberta Gas.

- Recognizing the difficult economic situation for many Alberta gas producers in recent years, NOVA offered and applied a reduction in its rate of return to equity for its Alberta gas transmission service in August 1983. That reduction was continued throughout 1984 and was well received by producer spokesmen.

- Under the direction of Novacor Chemicals Ltd. (100% owned), a new 1.5-billion-pound per year ethylene plant and a 600-million-pound per year linear low-density polyethylene plant were completed in July. Both plants had a fast start-up and proved capable of operating above nameplate capacity by the end of 1984. These plants employ state-of-the-art technology and were constructed substantially below the original cost estimates. They are among the most efficient in their conversion of raw material hydrocarbons into manufactured petrochemical commodities.

Ethylene and its derivative industries are, however, in a period of remarkably low market prices with great sensitivity to feedstock cost. The Novacor operations are competing strongly at high production rates in this rapidly changing environment.

- Late in 1984, the Government of Alberta agreed to allow the Alberta petrochemical industry to purchase its natural gas feedstock for ethylene manufacture at market-competitive prices within the province. This replaced a system of regulated feedstock pricing that had Alberta ethylene manufacturers paying the highest unit gas price in the province. The Company welcomed this policy change as

a good move in the right direction for a new industry in Alberta that is already contributing substantially to business and technological growth.

- NOVA's international engineering sales efforts through our wholly owned subsidiary, Novacorp International Consulting Ltd., continued to gain reputation and contracts throughout the world. In early 1985, we received two first-time contract awards for engineering on pipeline projects in China. The revenues generated are modest to NOVA consolidated, but the individual contracts are each profitable and build a base for future prospects in that country.



NOVA directors and officers toured the new ethylene plant at official opening ceremonies in October.

1985 PERSPECTIVE

Since the time of NOVA's first step to expansion beyond an Alberta gas transmission company in the early 1970s, we have been constantly choosing new investment in manufacturing operations. Technological accomplishment has been steady. Financial performance, however, has been mixed in some of these ventures. Sometimes it has been excellent and steady, as in our valve manufacturing investment in Italy and the good performance in 1984 of 50%-owned Western Star Trucks Inc. Sometimes it has lagged, as in the recent performance of our U.S. valve manufacturer and in our subsea equipment manufacturing operation through Novacorp's CanOcean Division.

One of the new enterprises which NOVA has helped to initiate is NovAtel Communications Ltd., a joint venture with Alberta Government Telephones for the development and marketing of cellular

operating systems and cellular mobile terminals. NovAtel has been making a fast start into a very new market and achieving considerable success as the main Canadian competitor. It earned the position of supplier to the new Cantel cellular mobile telephone network in Canada and is supplier of original equipment to certain prominent automotive manufacturers.

The immediate year ahead, 1985, will continue to be difficult in view of the oversupply of mobile telephones in the U.S. marketplace combined with NovAtel's large inventory position. However, further advances in product development are underway, and we expect the year to be one in which that company's ongoing position in the market will be established.

These years are focused on working over and rationalizing such investments. We need to improve returns to NOVA and to concentrate on the better prospects for future profit contribution. Part of this work in 1984 was the offering for sale of our valve manufacturing businesses, with detailed examination by buyers currently in process. During this selling period, some good improvement has been made by scaling down the ongoing operations and, if a satisfactory sale cannot be negotiated, the retention of these businesses may be acceptable in our plans.

After the period of rapid expansion into new industries and substantial growth of our original businesses — which multiplied assets, revenues and net income by more than 10 times in a period of about 10 years — NOVA has concluded that concentrated asset build-up program. We are moving deliberately now into a new period of making the best out of our considerable asset and investment position.

This is happening at a time of severely low prices in many of the commodities and equipment lines we produce. It is also a time of massive change in international competitiveness and the reordering of positions in large industries and trade zones.

Our battle today is to maintain or secure reasonable profit margins in each

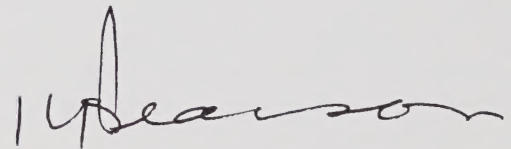
of our sectors. NOVA's consolidated profit results cover both a lot of good achievements and a number of very tough competitive situations. Year by year in the mid-1980s, we make financial gains in some areas but our overall net progress is less.

While the timing of the next upward cycles in natural gas, petrochemicals and energy equipment can be forecast only roughly, the quality, perseverance and competitiveness of the NOVA companies are increasingly demonstrated. When stronger markets occur, we foresee that NOVA will be well positioned to make the best of them and to do so from a new and much higher level of participation than the Company had access to previously.

In the meantime, every discernible possibility of increased return to shareholders is being pursued. The hardest effort is being applied to keep the Company at all times well and actively managed at every level, meeting all commitments and building value in the equity invested by its shareholders.

In signing as Chairman and President on behalf of the Board, we pay our respect again to the fellow workers throughout the NOVA group who make this new force in the private sector always alert and accomplished, wherever they work.

RESPECTFULLY SUBMITTED ON BEHALF
OF THE BOARD OF DIRECTORS:



H. J. Sanders Pearson, Chairman



Robert Blair, President and Chief Executive Officer

March 8, 1985

GAS TRANSPORTATION & MARKETING

During 1984, our Alberta gas transmission system — one of the world's largest and most complex — transported record volumes of more than two trillion cubic feet. Receipts jumped sharply in early November, following renegotiation of prices for exported natural gas, with the Foothills Phase I sections also operating near capacity in late 1984 and early 1985.

Investments in natural gas transportation include the 100%-owned Alberta gas transmission system and 50% ownership of Foothills Pipe Lines (Yukon) Ltd. (in turn, owner of Phase I of the Alaska Highway Gas Pipeline) and Trans Québec & Maritimes Pipeline Inc. The Company also owns 50.005% of Pan-Alberta Gas Ltd., a major Canadian exporter of natural gas.

RECORD RECEIPTS REFLECT INCREASED DEMAND IN CANADIAN AND EXPORT MARKETS

NOVA's Alberta Gas Transmission Division recorded system receipts of 2.02 trillion cubic feet (tcf) in 1984. This is an increase of 10% over the 1.83 tcf transported in 1983 and an all-time high for the system. The record volumes reflect lower prices and increased demand for Alberta gas in Canadian and U.S. markets.

Within Alberta, our 1984 deliveries amounted to 356.9 billion cubic feet (bcf), topping the previous record of 303.4 bcf set in 1983. Nearly half the growth in the intraprovincial market is attributable to expansion of Alberta's petrochemical industry.

Deliveries to California have been running at near record levels since November 1, 1984, when a renegotiated export pricing system went into effect. Unusually cold temperatures also contributed to a new peak daily volume of 1.55 bcf through our Alberta/British Columbia border meter station on January 14, 1985.

In comparison to 1983, higher volumes for the system as a whole were recorded in 11 months of 1984. The peak day receipt in the system's operating history was recorded on February 9, 1985, when it carried 8.55 bcf. Early in 1985, the all-time peak day record set in 1983 was broken repeatedly, with volumes on several days averaging over 8.0 bcf per day.

At December 31, 1984, NOVA's Alberta system comprised 8,415 miles of pipeline,

37 compressor stations with a combined compression rating of 537,646 horsepower and 741 receipt and major delivery meter points. The 1984 rate of return, determined on a rate base of \$1.3 billion, was 13.67% and incorporated a 15% return on common equity.

NEW PRICING AGREEMENTS INCREASE VOLUMES

During 1984, Pan-Alberta Gas successfully renegotiated contracts with the U.S. buyers who receive natural gas shipments through Phase I of the Alaska Highway Gas Pipeline system, operated by Foothills Pipe Lines. It is largely because of these



Construction in the Crowsnest Pass area in 1984 allowed larger volume exports this winter.

Over the last five years, natural gas has been Canada's second largest source of export revenue. In 1984, sales totalled \$11 billion with about \$4 billion of that amount from exports. NOVA's Alberta gas transmission system handles more than 75% of the Canadian gas sold in North America.



1984 GAS TRANSPORTATION & MARKETING CONTRIBUTION

new export pricing arrangements that the Phase I system carried record volumes in late 1984 and early 1985.

The contracts, announced by Pan-Alberta on October 16, were approved by the federal government in early November. Negotiations with the buyers began in July, when the federal government eased gas export pricing restrictions.

Pan-Alberta's renegotiated contracts comprise a total of 1,040 million cubic feet per day. A variety of pricing and take requirements are specified, with minimum take-and-pay — or a minimum revenue guarantee — as part of each contract. Further provisions, applying to all but one

United States and add significantly to volumes transported through Phase I.

The plan calls for optimizing the Phase I eastern leg in Canada and the United States and adding some new sections to accommodate increased export volumes to serve markets in the midwestern, northeastern and mid-Atlantic areas of the United States.

Preliminary cost estimates are about \$320 million for the expanded facilities in Canada and \$1.95 billion (U.S.) in the United States.

Foothills filed a facilities application in mid-February with Canada's National Energy Board, and the U.S. partners have companion applications before the Federal Energy Regulatory Commission.

At year-end 1984, Foothills' Phase I eastern and western legs comprised 527 miles of pipeline, four compressor stations with a combined compression rating of about 139,000 horsepower, and two meter stations. The average rate of return during the year, determined on a rate base of \$791.4 million, was 13.75%.

UPGRADING PROJECTS ON ALBERTA SYSTEM INCREASE CAPACITY

A portion of NOVA's system in the Crowsnest Pass area was upgraded during the summer and fall of 1984, with modifications including replacement of some large-diameter pipeline as well as installation of crossovers and mainline block valves. The value of this project has quickly become apparent, as volumes transported during December and January were far in excess of the line's previous capacity. Returns to producers from additional gas carried during that period alone have already more than offset the \$12 million spent on the project.

At Hussar, where the second largest compressor station on NOVA's Alberta system is located, a \$14-million rebuilding and improvement program was carried out during the year. Changes included the construction of a new auxiliary and controls building, installation of a state-of-the-art control system and upgrading of the station-yard piping network.

Both the Crowsnest upgrade and the Hussar project are part of an ongoing program by the Alberta Gas Transmission Division to ensure that the system maintains a high degree of safety and integrity, incorporates the best available equipment and technology, and operates at peak efficiency.

Net capital additions to the Alberta gas transmission system for 1984 totalled



of the buyers, stipulate payments of a "demand" charge that fully covers Canadian transportation costs and Pan-Alberta's cost of service.

CAN-AM PROJECT PROPOSES OPTIMIZATION OF PHASE I

Foothills Pipe Lines has joined with four U.S. companies to sponsor a project that would connect new markets in the

\$61.3 million, raising the total investment in facilities at year end to \$1.7 billion.

Additional major construction projects undertaken during the year included an \$18-million delivery lateral to supply natural gas to the steam injection heavy oil plants in the Cold Lake area. The facilities, which comprise 73 miles of pipeline and four meter stations, are expected to be in service by the end of March 1985.

NEWER TECHNOLOGY YIELDS LOWER COSTS, IMPROVED ACCURACY

The highly sophisticated computer technology used in operating the Alberta system is being modified to achieve more reliable, efficient and cost-effective service. The focus in 1984 was on two major projects.

The first project, to be commissioned in the fall of 1986, affects the gas control computer system. The objectives are to provide superior control capability and make additional capacity available. The improvements will allow four unmanned regional sites to communicate with the Edmonton Gas Control Centre. In the event of a central control outage in the Edmonton area, these regional sites will be able to control and monitor individual sections of the pipeline.

The second project is a computerized measurement system that incorporates innovative design functions developed by NOVA. Four of these systems went into operation in the Empress area in July, marking the first time such systems have been installed in Canada. These "real-time" measurement systems, which replace manual procedures used previously, allow more exact and current accounting of gas leaving the province at our largest delivery point.

QUEBEC INDUSTRIAL USERS PROVIDE NEW MARKET POTENTIAL

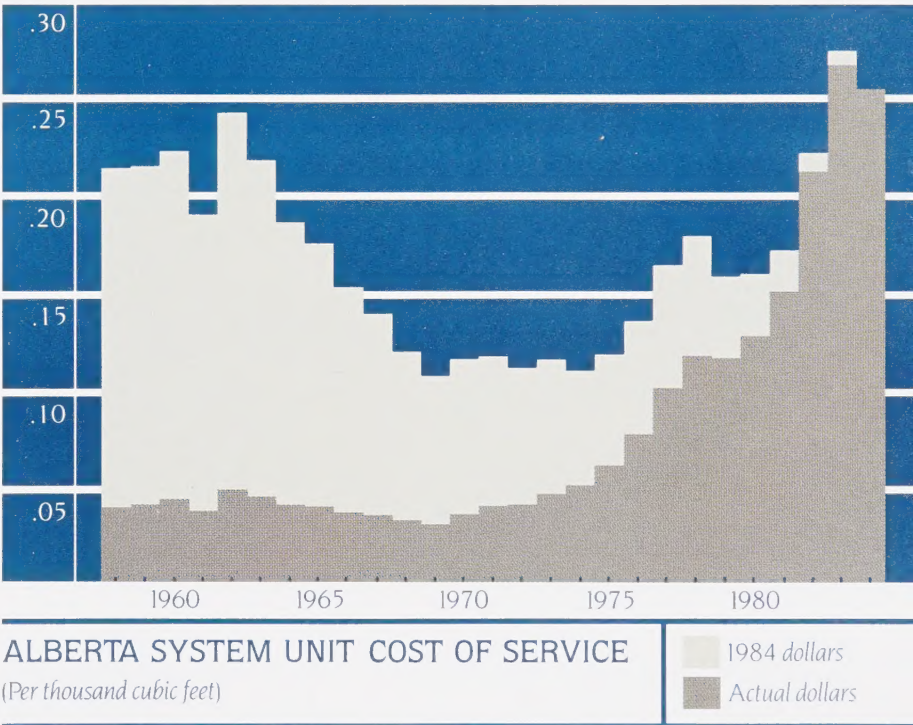
Industrial consumers north of Quebec City — including large aluminum smelters, chemical operations, and pulp and paper mills — are now able to use natural gas, following completion of a 217-mile lateral off the Trans Québec & Maritimes Pipeline (TQM) system.

The lateral connects the Saguenay/Lac Saint-Jean area to Canada's natural gas network. It was constructed by a Quebec distribution company under a federal government program aimed at expanding gas use in Quebec.

TQM recorded receipts of 65.2 bcf during 1984, with volumes for the fourth

quarter up 37% over the same period in 1983. At December 31, 1984, the company was operating with an overall 14.44% return on an approved average rate base of \$432.8 million. The return was raised from 12.66% on August 1 to accommodate increased interest charges to the company.

TQM succeeded in fixing rates on \$200 million of short term, floating rate bank debt in 1984 with two public bond offerings. The first, finalized on October 23, was for \$100 million at 13.10% over 10 years, subject to retraction by the lender after five years. The second financing, finalized on December 13, was for \$100 million at 13.20% over 20 years.



Transportation costs for the Alberta system declined last year, and the trend is expected to continue in 1985. Costs today — on a current dollar basis — are not much different from when we began operation.

On December 4, TQM's bridge financing agreement was replaced with a three-year term loan underwritten by four major Canadian financial institutions. The amount outstanding at year end under this agreement was \$140 million.

TQM facilities comprise 213 miles of pipeline, 10 meter stations and five sales taps.

PETROLEUM

NOVA's petroleum activities are carried out mainly through 67%-owned Husky Oil Ltd. (which publishes its own annual report). Husky had record earnings in 1984, and the sale of its U.S. subsidiary left it with one of the strongest balance sheets in the Canadian oil and gas industry. An agreement was reached on June 6, 1984, with the governments of Canada, Alberta and Saskatchewan on the Bi-Provincial Project.

Through Husky, NOVA is engaged in the production of heavy oil and conven-

tional oil and gas in western Canada. It explores for oil and gas offshore Nova Scotia and Newfoundland. It also participates in exploration plays in the Beaufort Sea and has small international oil and gas interests.

Novalta Resources Ltd. (100% owned) is a very successful junior oil and gas company, with exploration and production activities primarily in Alberta.

ACTIVITY UNDERWAY ON BI-PROVINCIAL PROJECT

Work is well underway on both the heavy oil upgrader facility and the associated production activity that form Husky's Bi-Provincial Project. A project management team is being assembled to oversee the design and construction of the \$1.4-billion upgrader, which will be capable of processing some 54,000 barrels per day of heavy oil into a lighter, more versatile oil.

Several steps have been taken with respect to planning and construction of the upgrader portion of the project:

- A combination of catalytic hydrogen addition and delayed coking has been chosen for the upgrading process because of economy of operation, high yield and good environmental standards. It is the first time the process has been selected for commercial use in Canada. Husky carried out extensive studies and a pilot project to ensure it was suitable for Lloydminster/Cold Lake heavy oil and has since acquired an ownership position in the process.

- Initial design work and project planning have been completed, some of the engineering contractors have been selected, and detailed design work has been initiated. Major construction will start in the spring of 1986.

- Documents required to initiate the Environmental Impact Assessment have been filed with the Saskatchewan government, and approval is expected by mid-year.

Work is also underway to expand drilling and enhanced oil recovery operations required for this project, and drilling activity is expected to increase by about 50% in 1985. Over the next five years, the capital costs related to increased primary production and enhanced oil recovery are expected to be about \$900 million.

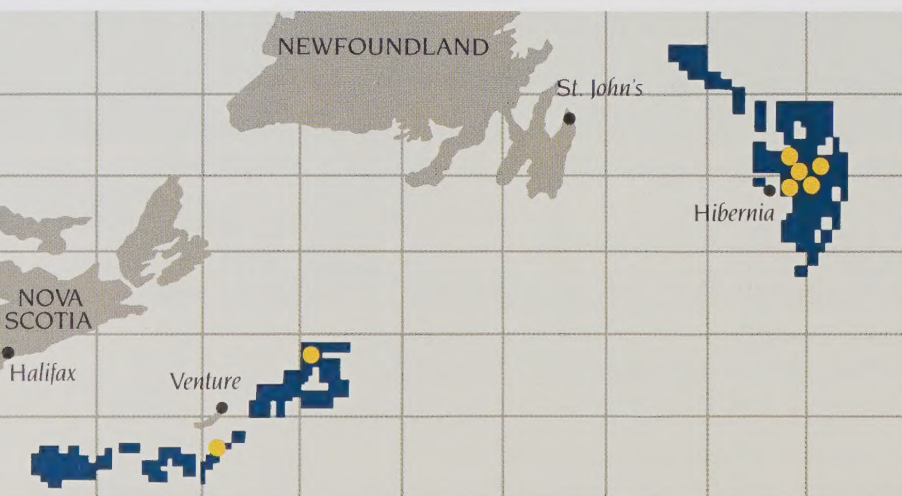
EOR PROJECTS CONTRIBUTE TO 1984 PRODUCTION RESULTS

About one-sixth of Husky's total oil production in 1984 was attributable to



■ Heavy oil/ oil sands
■ Bi-Provincial Project production area

HEAVY OIL ACTIVITY



■ Husky interest lands
● Husky discoveries and well locations

EAST COAST EXPLORATION

enhanced oil recovery (EOR) projects. Husky currently has eight experimental EOR projects in operation, evaluating various techniques including cyclic steam injection, steamflooding and fire-flooding. An additional experimental project is under construction and a commercial-scale steamflood is planned at Aberfeldy, Saskatchewan. The EOR projects are particularly important to the Bi-Provincial Project, as increased long term production will be necessary to meet the upgrader's feedstock requirements.

In the heavy oil areas of Alberta and Saskatchewan, Husky drilled a total of 233 net heavy oil development wells in 1984. Total gross production of heavy oil averaged 31,525 barrels per day, with EOR projects contributing nearly one-quarter of that amount.

Production of light oil in 1984 averaged about 11,200 barrels per day; more than 40% of this qualified for the New Oil Reference Price. Natural gas sales averaged 60.1 million gross cubic feet per day.

More detailed information on Husky's 1984 exploration and production activity in western Canada can be found in the Husky annual report.

HUSKY MOST ACTIVE CANADIAN OPERATOR IN EAST COAST AREAS

Husky participated in a total of 11 wells offshore Canada's east coast since the beginning of 1984. Seven of the wells — two of which showed the presence of hydrocarbons — were in the Grand Banks area. The remaining four were on the Scotian Shelf.

In the oil-prone Grand Banks area, where Husky currently has rights in 4.2 million gross acres, results from the Whiterose N-22 well were promising. The well tested oil and gas at encouraging rates and further drilling is scheduled this year to evaluate the structure's potential. The Trave E-87 well was plugged and abandoned in the second quarter after testing gas. Results from two other wells, the Conquest K-09 and the North Ben Nevis P-93, are expected by mid-1985, and drilling on the Panther P-52 well is to continue later in the year. Two other wells were abandoned without testing.

On the gas-prone Scotian Shelf, where Husky now has rights in 2.5 million gross acres, four wells were drilled in 1984. These include the Chebucto K-90, which tested gas and was plugged and abandoned. Results from the Hesper P-52 well are

expected by mid-year, and the other two wells were abandoned without testing.

Husky's activity in the east coast offshore area is supported by part ownership of two semi-submersible drilling rigs, the Bow Drill 2 and the Bow Drill 3, and six supply vessels. The Bow Drill 3 and two of the supply vessels were built in Canadian shipyards.

With its high Canadian ownership rating, Husky's frontier activities are eligible for maximum grants under the Petroleum Incentives Program. After allowing for PIP grants, it expects to spend about \$50 million on frontier exploration during 1985.

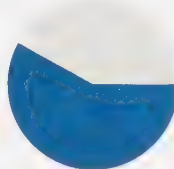


Husky's enhanced heavy oil recovery operations in the Lloydminster area are adding to production

Through Husky Oil Ltd., NOVA is well positioned in the major petroleum exploration areas of Canada. The current emphasis on heavy oil puts Husky in the limelight — it has historically been the largest heavy oil producer in Canada and continues in that role.



ASSETS
33%



OPERATING
REVENUE
42%



NET OPERATING
INCOME
40%

1984 PETROLEUM CONTRIBUTION

TWO FARM-IN WELLS IN THE BEAUFORT SEA HAVE GOOD OIL SHOWS

Husky participated in four wells in the Beaufort Sea in northern Canada during 1984. Of these, two had substantial oil shows. The Amauligak J-44 oil discovery is the best in the area to date, and delineation drilling is planned for 1985. The Pitsiulak A-05 well also tested oil at substantial flow rates. Another well was dry, and the fourth, Akpak P-35, will be completed later in the year.

The Beaufort drilling is being carried out under a farm-in agreement with two large petroleum companies.



Exploration off Canada's east coast is supported by Husky's investments in rigs and supply boats.

In 1984, Husky, as the most active Canadian operator on the east coast, earned into good acreage positions offshore Nova Scotia and Newfoundland.

SALE OF U.S. ASSETS RESULTS IN STRENGTHENED BALANCE SHEET

Husky reduced its debt by more than half when it sold its U.S. subsidiary to Marathon Oil Company in late May for \$505 million (U.S.).

As part of the sale agreement, U.S. refining and marketing assets were moved into another Husky subsidiary to be disposed of separately. An agreement was reached in October to sell these assets, but it has since been terminated because certain financing conditions were not met. Husky is currently in discussion with another prospective purchaser.

REFINING AND MARKETING SECTOR HAS GOOD SALES OF BLENDED CRUDE, ASPHALT

Sales of both blended heavy crude oil, at 81,000 barrels per day, and asphalt, at 6,000 barrels per day, increased in 1984, exceeding 1983 volumes by 17% and 12% respectively. These increases were due to continued high levels of heavy crude oil production.

Light oil sales volumes, at 12,060 barrels per day, were down slightly from 1983, mainly because Husky reduced its participation in marginal wholesale business.

Husky's two Canadian refineries at Lloydminster, Alberta, and Prince George, British Columbia, had good operating results during the year. Capital expenditures of about \$7 million on Husky's Canadian marketing facilities — which extend across western Canada to the Ontario/Quebec border — were aimed at closing less profitable outlets and adding new units to provide diversified services at key locations.

NOVALTA RESOURCES REPORTS A SUCCESSFUL YEAR

Novalta Resources Ltd., NOVA's wholly owned junior oil company, had a very profitable year in 1984. Oil and gas wells drilled totalled 81 gross (66.3 net) and resulted in 67 gross (57.9 net) gas wells and five gross (2.3 net) oil wells, giving Novalta a success ratio of about 90%. An additional seven wells were drilled through farm-out arrangements and resulted in five oil wells and one gas well. Gas sales for the year averaged 31 million cubic feet per day, an increase of 41% over 1983. Sales of oil averaged 384 barrels per day.

Novalta's landholdings at year end comprised 1.2 million gross (600,000 net) acres. Acreage acquired during the year included a 36,000-net-acre parcel in the West Edson area.

PETROCHEMICALS

NOVA's 10-year effort to become a major presence in the Canadian petrochemical sector was realized in 1984 with the completion of two new plants. Based on assets, NOVA is now the largest petrochemical company in Canada and a leading international marketer for some of these commodities.

Our \$1.5-billion investment in petrochemical assets, managed by Novacor Chemicals Ltd. (100% owned), includes facilities for production of ethylene, polyethylene, polyvinyl chloride and methanol. The Company also has interests in ethane extraction and gathering systems, product pipelines and storage facilities.

Although we supply some domestic markets, about 80% of derivative production is sold abroad, mainly in the United States and the Pacific Rim countries. Alberta Gas Chemicals Ltd. (50% owned) is the largest methanol trader in the world.

NEW PLANTS ACHIEVE QUALITY PRODUCT IN RECORD TIME

The highlight for NOVA's petrochemical sector in 1984 was the successful completion of two facilities under construction at Joffre, Alberta.

A second ethylene plant and a linear low-density polyethylene plant were finished ahead of schedule and under budget. Commissioning began in February and start-up in late June. By mid-July, both plants were running smoothly and producing to all specifications for quality.

Capital expenditures related to Ethylene II totalled about \$490 million, while the polyethylene plant was completed for an all-inclusive capital cost of \$430 million. The Joffre site now provides jobs for about 500 people and the plants consume about 4% of Alberta's gas production annually.

Ethylene II was officially opened on October 11. The opening ceremonies were attended by more than 350 guests, including Alberta Premier Peter Lougheed. Other provincial, municipal and local officials were also present, as well as industry representatives, suppliers and residents of the Joffre area.

The start-up of the new ethylene plant was a complex operation involving extensive training of employees. Design

capacity is 1.5 billion pounds annually, bringing our ethylene production capacity overall to 2.7 billion pounds annually. Product from the new plant is used partially in the polyethylene operation, with the remainder assigned under take-or-pay, cost of service contracts to three major petrochemical producers. The contracts are similar to the single-customer agreement in place for the first ethylene plant, which had excellent operating results during the year.

The polyethylene plant start-up was particularly successful. The original date projected for full operation was optimistically set at April 1985, but



Completion of Ethylene II ended nearly a decade of construction on the Joffre site.

Petrochemical commodity markets continue to be depressed, but our plant investment is new and efficient, employing the most recent technology. Upon recovery of this cyclical industry, NOVA will be positioned to compete successfully around the world.



1984
PETROCHEMICALS
CONTRIBUTION

the Novacor start-up resulted in full production capability in late 1984.

The plant — which employs the *Unipol* process — is designed to produce 600 million pounds per year of polyethylene resins. These resins are used to manufacture a variety of products, ranging from film for garbage and grocery bags to pipe and wire and cable jacketing.

As part of the start-up procedure, resins produced in the polyethylene plant were carefully tested, a process that is ongoing as the plant continues operation. Tests for melt index, bulk density and other properties are carried out at an on-site quality control laboratory. Staff there work

closely with personnel at the Novacor Technical Centre in Calgary, where similar equipment allows verification of test results. Before resins are shipped to customers, their performance can be verified in facilities at the technical centre that duplicate commercial fabricating conditions.

ETHYLENE OPERATIONS BENEFIT FROM LOWER, UNREGULATED FEEDSTOCK PRICING

The rising cost of regulated natural gas components, which are used as raw materials ("feedstock") in petrochemical production, has been of increasing concern over the past three years, as costs have declined for major competitors in our export markets. In particular, ethylene production, where feedstock accounts for more than half the cost, has been critically affected.

In November, the Alberta government introduced a program that is helping the situation.

The program allows the purchase of all gas associated with ethylene production at the freely negotiated prices available to other industrial users in the province. Most of this gas goes to replenish export streams after ethane is extracted. Prior to the new program, we were required to pay the regulated export price for this "make-up" gas. The difference between the export price and the unregulated intraprovincial price is currently about 75 cents per thousand cubic feet.

The Alberta government is providing transition funding to support this program until July 1, 1986, allowing a bridge period during which contracts with suppliers can be renegotiated and put in place.

Of continuing concern are front-end taxes on production that impair our ability to acquire natural gas at prices which allow the industry to be competitive. These taxes, along with royalties, currently account for about one-half of gas producer revenues.

FOCUS ON MINIMIZING COST OF COMMODITY PRODUCTION

Several factors are converging to weaken markets for all three of NOVA's commodity petrochemicals — polyethylene, polyvinyl chloride and methanol.



First, there is excess capacity around the world, with producing areas trying to upgrade resources domestically for sale in other countries. Because of the strong U.S. dollar, producers in that country — at present our major export market — are unable to sell their products abroad and are competing aggressively with Canadian suppliers. Reduced world energy prices have resulted in lower production costs on the U.S. Gulf Coast, while feedstock prices in Canada have increased. The combination of lower energy prices and overcapacity has resulted in a very soft market, and prices are at levels that prevailed in the mid-1970s.

NOVA's strategy for dealing with this market situation is to minimize costs by all possible means, ensuring that plants are operating at high capacity and producing higher value products that can be sold at greater profit margins. We are also working to achieve lower feedstock costs and to negotiate freer trade arrangements with the United States. Tariff policies currently present a formidable obstacle to Canadian suppliers exporting into that market.

The commodity plastic resin plants progressed towards good operating results overall during the year, and plans call for them to run at close to full design capacity during 1985. They are equipped with the best technology available today, staffed with knowledgeable and experienced personnel, and able to operate efficiently and cost-effectively. In addition, a capable sales team is backed by product development and technical service to customers offered by the Novacor Technical Centre.

Methanol production, carried out by Alberta Gas Chemicals at Medicine Hat, Alberta, provides jobs for about 165 persons and creates a market for approximately 35 bcf of natural gas per year. Site capacity is 2,400 short tons per day, with major markets for this product in the Pacific Rim countries.

The polyvinyl chloride plant (50% owned) at Fort Saskatchewan has an annual capacity of 220 million pounds and employs about 110 people.

LARGE RAIL FLEET PROVIDES READY MARKET ACCESS

Transport capability is a critical issue for industries in a landlocked area such as

Alberta. As a step towards meeting this challenge during 1984, we amassed a fleet of more than 1,000 rail cars for shipping polyethylene. Added to the 500 cars used for carrying ethylene by-products and polyvinyl chloride, these cars position Novacor Chemicals as the operator of one of North America's largest fleets of this type.

The polyethylene cars, many of them manufactured in Ontario, are being used to carry resins to customers in Canada and the United States and to west coast ports for export. They are deployed from a 650-car railyard at Joffre, using a computerized marketing system that tracks shipments across the continent.



The Joffre railyard, adjacent to the new polyethylene plant, accommodates 650 rail cars.

Novacor's rail cars are deployed and monitored by a computerized system that ensures timely, efficient delivery of products.

OTHER BUSINESSES

NOVA provided consulting expertise to 17 countries during 1984. These international consulting assignments are a growing part of our overall business activity. Applied research is another area of growth, one that provides support to all our businesses while adding to efficient, cost-effective operation.

In this part of our annual report, we are including information on consulting, as carried out by Novacorp International Consulting Ltd. (100% owned), and research and development, pursued through the



A project in Malaysia was the Company's largest international consulting assignment to date.

We've built, and are operating in Alberta, one of the world's most complex pipeline systems. Our years of experience and sophisticated technology are highly exportable commodities.

Several countries around the world are inviting us to help them with major energy projects.

NOVA/Husky Research Corporation Ltd. (jointly owned). Manufacturing operations were reduced in 1984, but continue to include pipeline valves, telecommunication systems and equipment, trucks and compressed natural gas conversion equipment.

CHINA PIPELINE CONSULTING CONTRACTS A FIRST FOR CANADA

Novacorp International Consulting Ltd. announced in March 1985 that it has been engaged to provide engineering design for two pipelines in China, marking the first time that a Canadian company has been

contracted to perform this type of work for an onland pipeline project in that country.

The initial contract is for the 240-mile Zhong-Cang pipeline, which will carry natural gas from the Zhongyuan oilfield in Henan province to the Cangzhou fertilizer plant in Hebei province. Projected annual volumes are 7.1 bcf, with capacity eventually to reach 21.2 bcf. Novacorp has agreed to undertake engineering design work on the pipeline, including compressor controls, telecommunication facilities and an automation system, and will carry out a study on the possible application of a waste-heat recovery system.

The second contract is for engineering design, detailed automation and surge-control design, and construction and start-up assistance for a 155-mile oil pipeline. This pipeline will carry 140 million barrels per year of crude oil from Shengli oilfield to Huangdao in Shandong province.

During 1984, Novacorp and its CanOcean Division carried out projects in 15 countries, with three of those countries and two others sending employees to Alberta for training on the NOVA gas transmission system.

One of the 1984 projects was in Malaysia, where Novacorp completed its largest international engineering job to date. Employees designed and supervised construction of that country's first onshore natural gas pipeline, with responsibilities that included detailed pipeline design, field engineering, quality assurance, construction inspection and commissioning supervision. In addition, local workers were trained in pipeline welding techniques.

Novacorp has applied for pre-qualification to submit a bid for the second phase of the Malaysia project, an extensive undertaking that will provide facilities to carry natural gas to Malaysia's west coast and south to Singapore for export.

Australia, Thailand, Finland and Norway are other countries for which Novacorp has successfully completed projects and has been requested to participate in additional assignments.

In Australia, where an offshore natural gas field on the northwest coast is being connected to gas markets in the Perth area, Novacorp was asked to provide pre-commissioning advice and now is undertaking further work related to operation of that pipeline.

In Thailand, the national Petroleum Authority has asked Novacorp back for the third year in a row to supply technical

consulting services for a major pipeline in that country.

In Finland, Novacorp provided technical assistance on the expansion of a natural gas transmission and distribution system and has recently been awarded the detailed design contract for a major compressor station on this system.

And in Norway, the CanOcean Division is forming a joint venture company with a major Norwegian supplier of marine and offshore electrical equipment. This new company will provide engineering studies, product development, and subsea and offshore production systems for projects in the Norwegian sector of the North Sea. CanOcean has previously been involved there in conceptual studies of subsea production systems for such potential offshore developments as the Troll oil and gas field.

Other projects in which the CanOcean Division was involved during the year included working with an Indian company to provide design engineering and project management for a subsea production system for India's Bombay High field.

In January 1985, the division completed the development of emergency ascent and recovery systems for the Canada Oil and Gas Lands Administration. These systems allow diving bells to ascend to the surface under their own control, independent of their mother ship.

RESEARCH AIMED AT APPLICATIONS TO SUPPORT NOVA ACTIVITIES

The discovery of a unique way to control water flow in oil wells is a recent achievement of the NOVA/Husky Research Corporation Ltd. This company, formed in late 1981, pursues research and development projects on behalf of the two companies and their subsidiaries and affiliates.

Enhanced oil recovery is a major area of interest, and a project which was completed in 1984 has focused on developing a microbial culture that will control undesired water flow in reservoirs, a problem in heavy oil recovery. Researchers found a harmless but hardy bacteria that can be injected into a well and, when fed on a diet of sugar-beet molasses, produces an insoluble polymer that will plug up water channels in the well. The technology has been patented, and a field test is planned.

Other projects in enhanced oil recovery are aimed at finding better ways to remove water from the heavy oil emulsions produced as a result of thermal

recovery processes, developing more efficient methods to control flow patterns of oil and water in porous material, and overcoming practical problems associated with steamflooding.

On areas related to natural gas pipelining, researchers have been working to gain a better understanding of gas dynamics and to develop computer programs that will simulate pressure changes and vibrations in the pipeline. A field-scale research test facility has been installed on the NOVA pipeline at Didsbury, Alberta.

Efforts are also being made to predict and control bacterial corrosion in



Research scientists pursue projects that lead to increased efficiency for the NOVA group.

NOVA has been a leader for many years in the development of innovative techniques and new equipment. Today, our well-established research and development group is helping us keep that technology edge in our main businesses.

pipelines, and fundamental research is underway on catalysts used in petrochemical processes. In addition, we have an electronics and instrumentation group that is working on advanced equipment for measurement and data gathering.

POOR MARKET CONDITIONS AFFECT MANUFACTURING EARNINGS

NOVA's major manufacturing investments are in pipeline valve and flow control products through Grove Valve and Regulator Company of Oakland, California, and WAGI International S.p.A. of Voghera, Italy (both 100% owned). Operations of these two companies were scaled down

substantially over the past year. Margins for their products continue to be narrow, and markets remain depressed.

The Italian operations continued to be profitable in 1984. However, sales and profits were significantly reduced from 1983 levels, and new specialty products introduced in 1983 and 1984 largely replaced the standard valve business of previous years. In the United States, prices were extremely competitive, but sales increased during the year and operating losses were reduced.

Our main operations in this business were offered for sale in the fall of 1984 through a major investment banking house

in the United States; discussions with prospective buyers are ongoing. We expect to know during the spring of 1985 whether divestiture will be accomplished or if NOVA will continue to operate these companies.

NOVA's joint venture into telecommunications, NovAtel Communications Ltd. (50% owned), experienced production problems during the year with respect to one of its cellular mobile telephone models. These production delays and the associated costs, coupled with oversupply conditions in U.S. markets, resulted in extraordinary losses for NovAtel in 1984, and these losses were reflected in the write-downs taken by NOVA.

Our truck manufacturing activities, pursued through Western Star Trucks Inc. (50% owned), had a good year in 1984, with a substantial turnaround from 1983. Near capacity production of 14 trucks per day was reached during the late fall. Penetration of the U.S. market was extremely successful and was largely responsible for an increase in total units sold to about 2,500 from fewer than 900 in 1983. Markets have since weakened somewhat, and production levels are being scaled back. Nonetheless, Western Star has a good backlog of orders going into 1985 and anticipates another profitable year.

CNG Fuel Systems (50% owned) also experienced a successful year in 1984. Business activity doubled, with 1,700 vehicles converted and 33 refuelling systems installed. Two regional sales offices were established in Dallas and Denver, and 23 authorized dealerships were activated. CNG Fuel Systems is the world's largest fully integrated company supplying conversion, compression and dispensing equipment for compressed natural gas.



Western Star Trucks reported good earnings and production successes for the year.

Manufacturing interests were cut back, and slow markets affected sales of some products. Even so, certain of our operations had a profitable year.

CORPORATE PROGRAMS

OCCUPATIONAL HEALTH AND SAFETY PROGRAMS MAKE MARK

Programs sponsored by NOVA's occupational health and safety department had a high rate of participation during the year.

The occupational medicine staff reports that about 1,350 employees used the facilities of the Company's fitness centre on a regular basis, and results from an initial study done on participants are encouraging. A group was surveyed in June, then again in August. Respondents indicated that they felt more active while enrolled in classes and experienced increased feelings of well-being. The program is of high interest to employees, and observers throughout the Company report a heightened awareness of health enhancement issues.

In addition to the fitness centre activities, the Novaction program offered various seminars and clinics on stress management, weight control, smoking cessation and similar topics. More than 3,000 employees participated in these meetings.

Safety staff marked two notable records in the petrochemicals sector during the year. At Joffre, employees have now completed more than two million person-hours of work without a lost-time accident, an accomplishment achieved during a period when almost \$1 billion in new facilities were being completed on the site. On July 12, employees of the polyvinyl chloride operations at Fort Saskatchewan attained three years without a lost-time accident.

CONTRIBUTIONS EMPHASIZE HEALTH AND WELFARE

NOVA continues its corporate contributions program by assisting various non-profit voluntary organizations locally, provincially and nationally. These groups provide services that benefit people across Canada, including NOVA shareholders.

The contributions program is one of the ways in which NOVA meets its responsibilities as a corporate citizen, and an annual budget is established each year. During 1984, the NOVA companies contributed about \$1.5 million to various non-profit organizations and institutions.

The health and welfare field has historically received the highest percentage of our funds. One particularly significant contribution, made to mark Calgary's centennial, was the establishment

of a \$50,000 fund to benefit senior citizens. An effort was made to sponsor projects that will assist people in auxiliary hospitals and nursing homes, as well as those trying to maintain their health and lives outside of institutions.

Other health and welfare grants went to various United Way campaigns and a variety of groups providing support to people stricken by certain diseases, and for medical research related to those diseases.

The remaining budget was allocated to education, arts and culture, civic activities and recreation. A large contribution was made in support of The Canadian Encyclopedia which will be published in



Equipment for the intensive care unit at Calgary's Foothills Hospital was a major 1984 contribution.

People across Canada benefit from contributions made by the NOVA companies. Employees also volunteer their own time to a variety of agencies and organizations.

the fall of 1985. Other major grants went to the Edmonton Space Sciences Centre and to the Canadian Figure Skating Association for the Skate Canada competition.

The Council for Canadian Unity received support for its Terry Fox Centre for Youth, and another contribution was made to the Business Fund for Canadian Studies in the United States.

SHAREHOLDER INFORMATION

NOVA shareholders are invited to attend the Company's annual meeting to be held on Thursday, May 9, 1985, at 3:30 p.m. in NOVA's corporate headquarters, 801 Seventh Avenue S.W., Calgary, Alberta.

NOVA'S SHARES WIDELY HELD, NEARLY ALL BY CANADIANS

NOVA's Class 'A' common shares are among the most widely held and actively traded in Canada.

It is difficult to obtain an accurate

profile of our shareholders, partly because institutions hold a significant number of shares as nominees for many individual shareholders. Shareholders may have their shares in "street name"; that is, they are held by a brokerage house on behalf of individual owners. Our shareholder records in these cases show only the trust company or the brokerage house as the owner, not the many individuals who actually own the shares.

Nonetheless, we do regularly review our shareholder accounts to determine who the major registered and nominee account holders are and where they reside. Some of the following information, collected as of December 31, 1984, may be of interest to readers of this report.

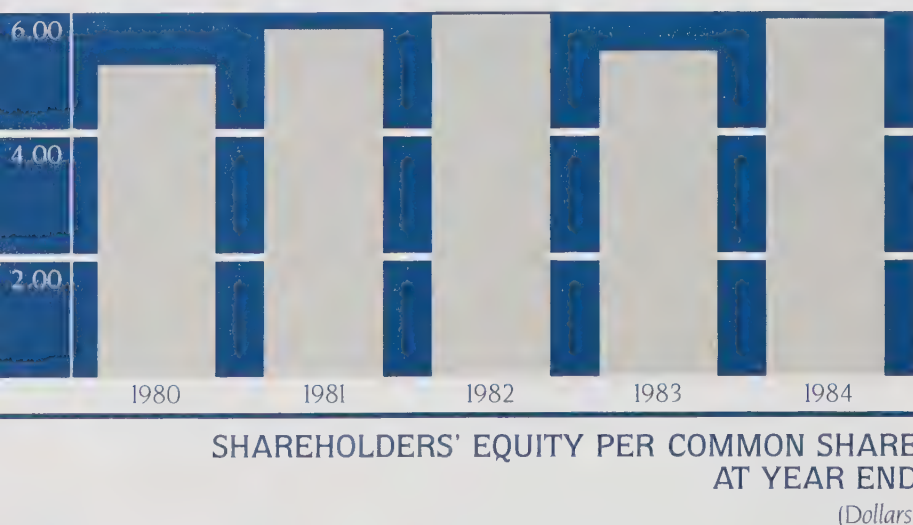
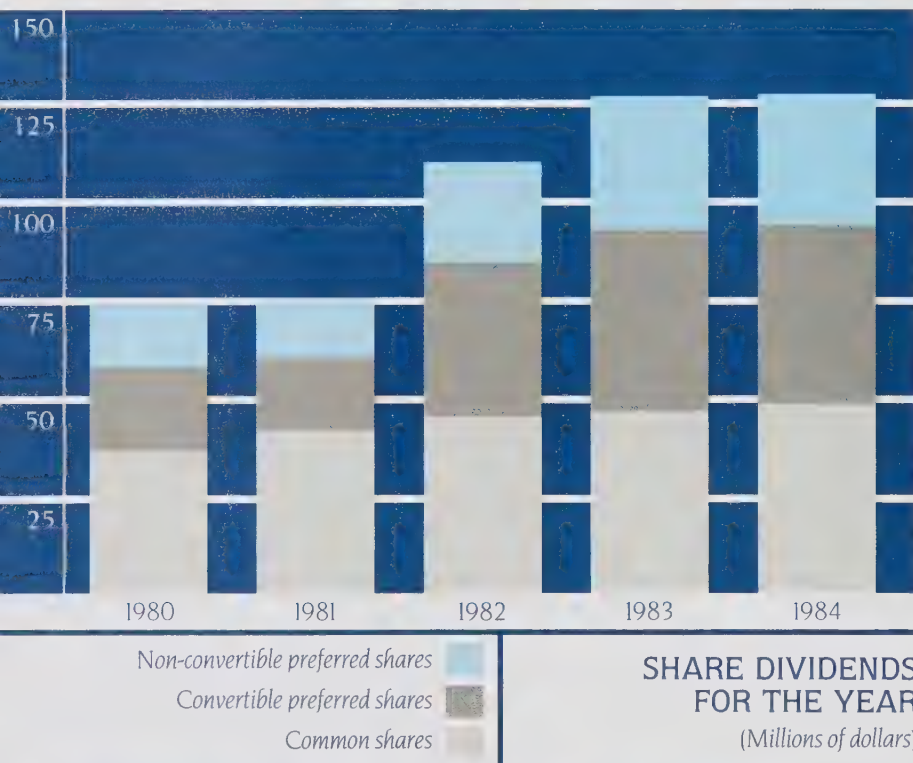
- NOVA had a total of 36,853 Class 'A' common shareholder accounts. The total number of shares held in these accounts was 125,251,870.

- We have shareholders in every province and territory in Canada. The majority of shareholder accounts — about 42% — were registered in Alberta. However, Albertans held only about 11% of the shares. About 58% of the outstanding shares were registered in Ontario, although only about a quarter of the accounts were held there. This is because most of Canada's major financial institutions are located in Ontario, and many of the accounts addressed to that province hold shares beneficially owned by residents of other provinces.

- About 97% of both the shareholder accounts and actual numbers of shares held were registered in Canada. The remaining 3% were held mainly in the United States, with a small number of shareholders residing in other countries.

- Approximately three-quarters of the outstanding shares were held in about 173 accounts containing 50,000 or more shares. These accounts represent most of Canada's major banks, trust companies, brokerage houses and pension funds. But we have many shareholders with smaller holdings, too. In fact, about 24,700 shareholders have accounts with 500 or fewer shares. We're particularly proud of the hundreds of shareholders who bought our shares when they were first issued in 1957 and have continued to hold them.

In addition to the Class 'A' common shares, NOVA had 10 preferred share issues outstanding at December 31, 1984. These shares were held in a total of 36,774 shareholder accounts. Of the 10 issues, three are convertible and, if converted,



would increase the total number of outstanding Class "A" common shares to 183,553,466. An additional preferred share issue was completed in January 1985.

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN AVAILABLE

The Company has a Dividend Reinvestment and Share Purchase Plan that provides common and preferred shareholders with an opportunity to reinvest their cash dividends in Class "A" common shares at 95% of the weighted average price of Class "A" shares sold on The Toronto Stock Exchange on the dividend payment date. Shareholders may also make optional cash payments and acquire additional Class "A" shares without paying brokerage commissions.

Those wishing to obtain further information about the plan may contact The National Victoria and Grey Trust Company, Stock Transfer Department, Suite 1008, 320 Eighth Avenue S.W., Calgary, Alberta T2P 2Z2. Telephone (403) 263-1460.

The Dividend Reinvestment and Share Purchase Plan is not available to residents of the United States of America or any of the territories or possessions thereof.

STOCK EXCHANGE LISTINGS

NOVA's Class "A" common shares are listed on three Canadian exchanges: the Alberta Stock Exchange, The Montreal Exchange and The Toronto Stock Exchange.

The Company's preferred shares are listed on the Alberta Stock Exchange, The Montreal Exchange (for 7.60%, 6-3/8%, 6-1/2%, 15%, 12%, 11.24% and 9-1/8% preferred shares only), and The Toronto Stock Exchange.

In newspaper listings, NOVA's various share issues are designated as follows:

Nva AltA f	Class "A" Common
Nova C	4-3/4% Series C Preferred
Nova E	7-3/4% Preferred
Nova F	9-3/4% Preferred
Nova G	9.76% Preferred
Nova H	7.60% Preferred
Nova J	6-3/8% Second Convertible Preferred
Nova K	6-1/2% Second Convertible Preferred
Nova L	15% Preferred
Nova M	12% Second Convertible Preferred
Nova N	11.24% Preferred
Nova O	9-1/8% Preferred

TRANSFER AGENTS AND REGISTRARS

Class "A" common shares are registered with The National Victoria and Grey Trust Company in Vancouver, Calgary, Edmonton, Winnipeg, Toronto and Montreal, and with Canada Permanent Trust Company as agent for The National Victoria and Grey Trust Company in Regina.

Class "B" common shares are registered with The National Victoria and Grey Trust Company in Calgary.

The Company's preferred shares are registered as follows: The Canada Trust Company in Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto and Montreal for all share issues, and The Canada Trust Company in Halifax for the 7.60%, 6-3/8%, 6-1/2%, 15%, 12%, 11.24%, and 9-1/8% preferred shares only.

REQUESTS FOR CORPORATE INFORMATION

Literature on various aspects of the Company's business is available from the creative services department at the corporate headquarters address listed on the inside back cover of this report.

NOVA welcomes questions from shareholders, and these may be directed to senior officers of the Company or to the manager of the investor relations department by writing to the corporate headquarters or by telephone at (403) 290-7543. Callers in Canada may use the Company's toll-free number, (800) 661-9264.

RAPPORTS ANNUELS EN FRANÇAIS

Les personnes désirant des exemplaires en français du présent rapport sont priées de s'adresser au secrétaire de la Compagnie.

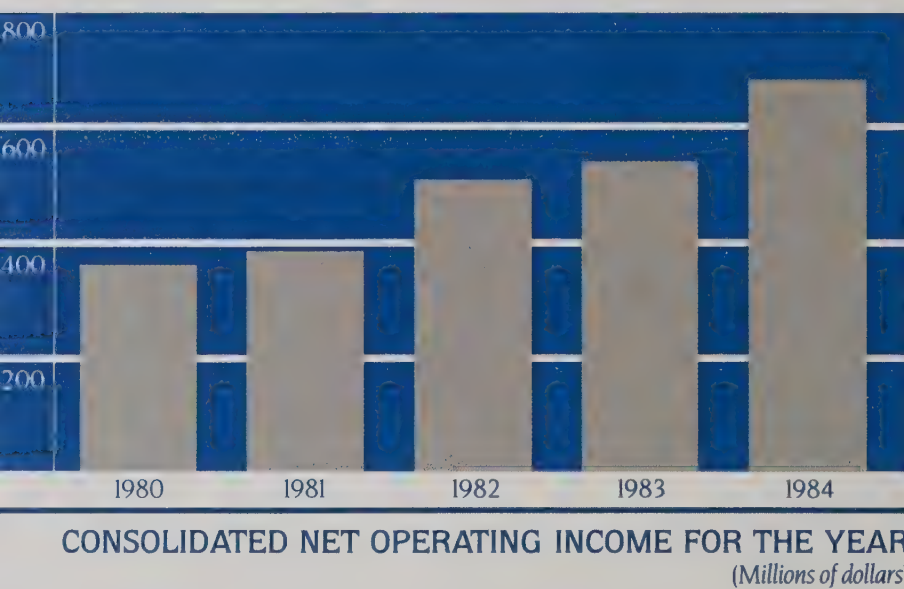
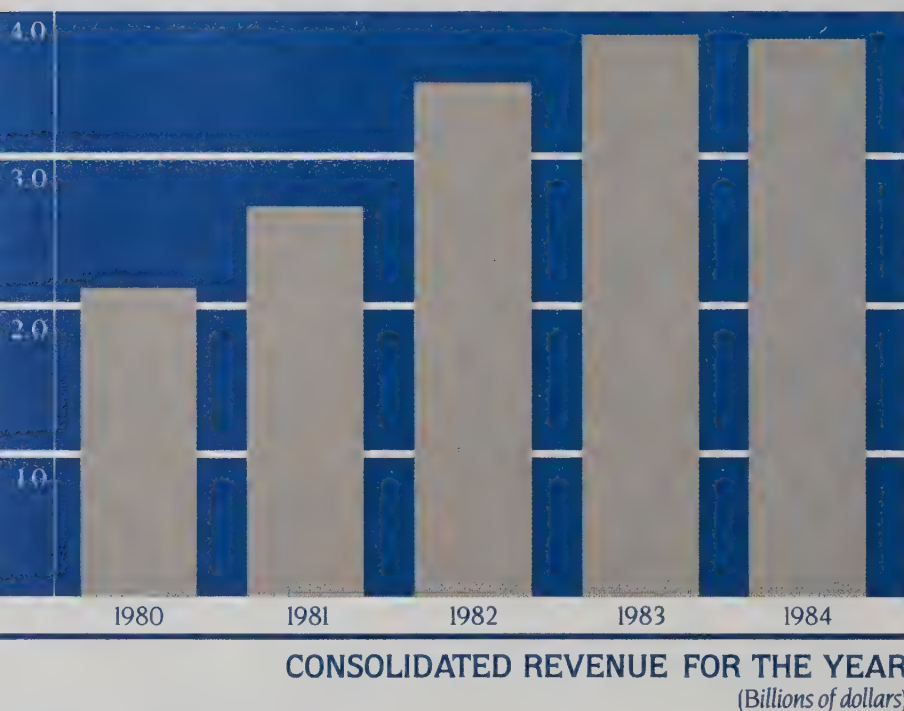
DUPLICATE ANNUAL REPORTS

Holders of NOVA securities may receive more than one copy of our annual report and other material. We make an effort to eliminate duplications; however, if securities of the same class or series are registered in different names and addresses, multiple copies will be received. In those instances, security holders should contact either the appropriate registrar or the Company to consolidate their holdings under one name.

FINANCIAL REVIEW

In 1984, the Company recorded annual consolidated net income of \$203.4 million or \$1.02 per common share after extraordinary items. Income before extraordinary items of \$155.3 million increased by \$4.5 million or 3 cents per common share (a 5% increase in per share earnings). Extraordinary items contributed income of \$48.1 million in 1984 versus a loss of \$115.6 million in 1983.

REVENUE: Consolidated operating revenue of \$3.794 billion was \$29.5



million lower than the comparative amount reported in 1983. Petrochemicals revenue increased \$65.7 million, as a result of the commencement of operation of the new ethylene plant in mid-1984. A slight decline in Gas Transportation & Marketing was principally due to a drop in volumes shipped through Phase I of the Alaska Highway Gas Pipeline. Petroleum operating revenue was down \$67.8 million, attributable to Husky Oil Ltd.'s (67.05% owned) sale of its United States subsidiary Husky Oil Company on May 31, 1984. However, the adverse effect on revenue of this sale was partially reduced by an increase in revenue from Canadian operations, where both heavy and conventional crude oil volumes exceeded 1983 production levels. Continuing weak market conditions for energy equipment reduced sales in foreign manufacturing operations by \$23.1 million in 1984.

COSTS AND EXPENSES: Total costs and expenses were \$3.117 billion compared with \$3.279 billion in 1983. Operating expenses were 5% or \$160.2 million lower than 1983. This reduction was mainly attributable to the Petroleum segment, down \$134.3 million, principally as a result of the sale of Husky Oil Company. Other reductions occurred in Gas Transportation & Marketing, down \$47.0 million, the consequence of lower natural gas export volumes early in the year, and in Manufacturing, down \$15.0 million, the result of lower production volume combined with cost reduction measures undertaken in late 1983 and early 1984. These reductions were partially offset by increased operating expenses in Petrochemicals, up \$36.1 million, due mainly to the commencement of operations of the new ethylene plant.

The decrease of \$18.7 million or 6% in depreciation and depletion reflects the disposition of Husky Oil Company as partially offset by higher depletion due to increased oil and gas production in Canadian operations, and increased depreciation in Gas Transportation & Marketing and Petrochemicals as new plant was placed into service in 1984.

Petroleum and gas revenue tax increased by \$11.9 million or 27% in 1984 due to the increase in Canadian oil and gas production.

Loss on foreign currency translation increased by \$4.6 million in 1984 due principally to an increase in the amortization of unrealized foreign exchange

losses, on foreign denominated long term debt of Canadian operations, resulting from a 6% decline in the Canadian dollar vis-a-vis the United States dollar.

NET OPERATING INCOME: Net operating income of \$677.0 million represents an increase of \$132.9 million or 24% over 1983. The increases of \$33.4 million for Gas Transportation & Marketing and \$13.1 million for Petrochemicals were due to both growth in operating assets and an increase in the income taxes recoverable for these cost of service activities. However, as noted in a subsequent paragraph, the increase has been offset by a reduction in allowance for funds used during development and construction in the amount of \$18.4 million. Petroleum net operating income was up by \$94.5 million as a result of a strong performance from Canadian oil and gas activities. The decrease in Manufacturing net operating income of \$8.1 million is the result of the depressed market conditions for energy equipment.

OTHER ITEMS: The Company's share in losses of affiliated companies in Petrochemicals and Manufacturing, which are accounted for on an equity basis, was \$6.4 million in 1984 as compared to \$8.6 million in 1983. These losses are attributable to the continuing weakness in world methanol markets and the Company's telecommunications joint venture and were partially reduced by improved demand for transportation equipment.

Allowance for funds used during development and construction was down by \$18.4 million from 1983. The decline of \$9.2 million in Gas Transportation & Marketing reflects the completion of certain major capital projects and the corresponding increase in plant in service. The decrease of \$9.2 million in Petrochemicals is due to the completion of construction work on the second ethylene plant.

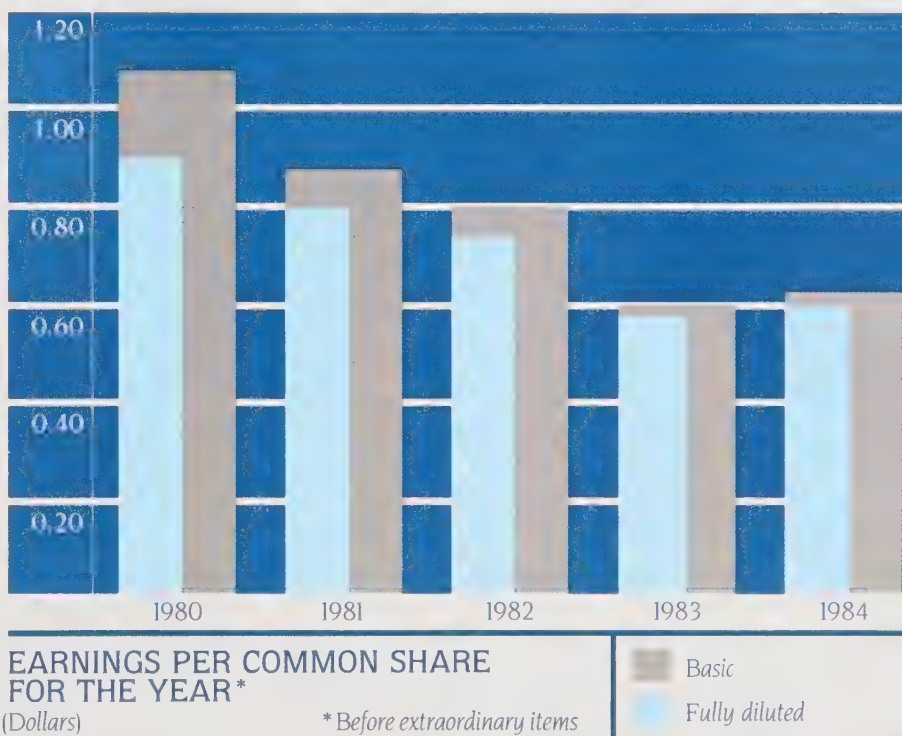
INTEREST: Net interest expense for 1984 of \$341.8 million, compared to \$317.0 million for 1983, was up \$24.8 million, principally due to an increase in the composite average interest rate as compared to 1983 and an increase in the average outstanding debt during the first five months of 1984.

INCOME TAXES: The 1984 provision for income taxes represents an increase of \$72.1 million from 1983, primarily due to higher income levels reported by

Canadian petroleum operations and an increase in the taxes recovered through the Gas Transportation & Marketing cost of service operations.

MINORITY INTEREST: Minority interest share of income of \$56.7 million is up \$18.4 million from the \$38.3 million reported in 1983. The increase primarily reflects the improved results of Husky.

NET INCOME: In 1984, consolidated income before extraordinary items was \$155.3 million compared to \$150.7 million in 1983. Basic earnings per common share before extraordinary items were 63



cents in 1984 on a total of 123.2 million average common shares outstanding, as compared to 60 cents on a total of 118.5 million average common shares outstanding in 1983. Earnings per common share on a fully diluted basis before extraordinary items were 60 cents in 1984 compared to 58 cents in 1983.

Extraordinary items in 1984 contributed income of \$48.1 million as compared to a loss of \$115.6 million in 1983. As a result, consolidated net income for 1984 was \$203.4 million as compared to \$35.1 million in 1983. Basic and fully diluted earnings per common share after extraordinary items in 1984 were \$1.02 and 77 cents respectively as compared to a loss of 38 cents, basic and fully diluted, in 1983.

The extraordinary items in 1984 started with a gain of \$132.6 million from the sale of Husky's United States company. This was reduced by write-downs totalling \$34.6 million, primarily relating to the Company's investment in its telecommunications joint venture and its remaining interest in its polyvinyl chloride plant. In addition, the Company provided \$49.9 million for the write-down to estimated net realizable value of certain investments held for sale, primarily in its United States and Italian valve and flow control equipment manufacturing operations, wherein a significant portion of the provision relates to the effects of the decline in the value of

the lira in 1984 and 1983.

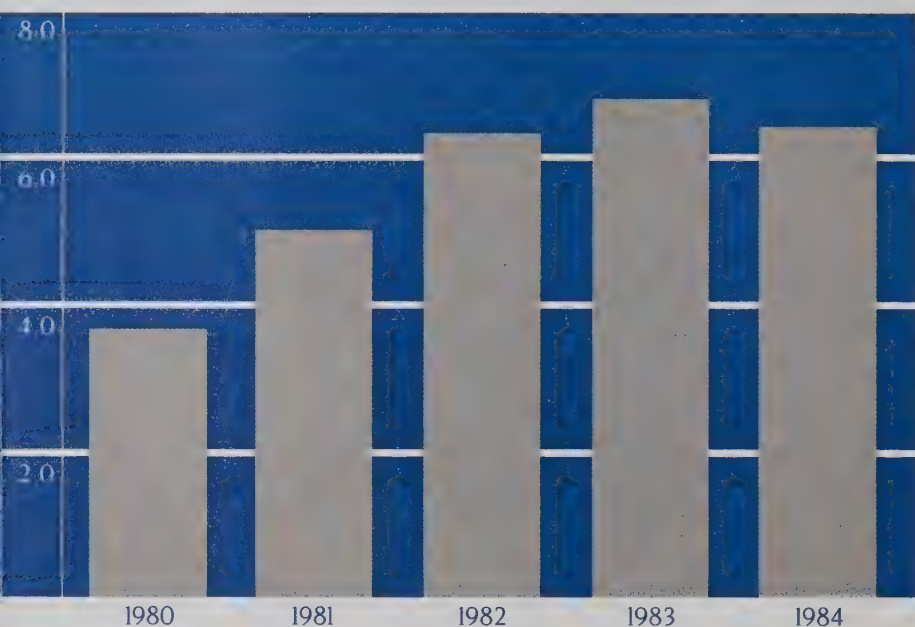
In 1983, the Company recorded extraordinary charges of \$115.6 million. A provision against the accumulated costs related to three large projects for which the timing of construction had been seriously delayed amounted to \$65.7 million. The projects involved were Phase II of the Alaska Highway Gas Pipeline Project, the Oil Sands Mining Project and the Arctic Pilot Project. Despite these write-downs, the Company remains committed to Phase II of the Alaska Highway Gas Pipeline and similarly may put a mineable oil sands project into place in the future. Adjustments to the carrying value of certain investments and assets amounted to \$39.5 million. These involved a portfolio investment in Nu-West Development Corporation, a polyvinyl chloride plant and a malic and fumaric acid plant. Losses of \$10.4 million were incurred on the disposal of a foundry located in Italy, a small energy equipment manufacturing plant in the United States and a U.S.-based charcoal briquet manufacturing subsidiary of Husky.

ASSETS: Total consolidated assets of \$6.428 billion at December 31, 1984, declined from \$6.796 billion at the end of 1983. This decrease was chiefly due to the decline in petroleum assets after reflecting the sale of Husky Oil Company.

DIVIDENDS: Dividends paid or payable for 1984 totalled \$127.4 million compared to \$127.1 million for 1983. Common share dividends were \$49.4 million (\$47.6 million in 1983); dividends on convertible preferred shares were \$44.7 million (\$45.5 million in 1983); and dividends on non-convertible preferred shares were \$33.3 million (\$34.0 million in 1983). In 1984, the common shareholder received total dividends equal to 40 cents per common share.

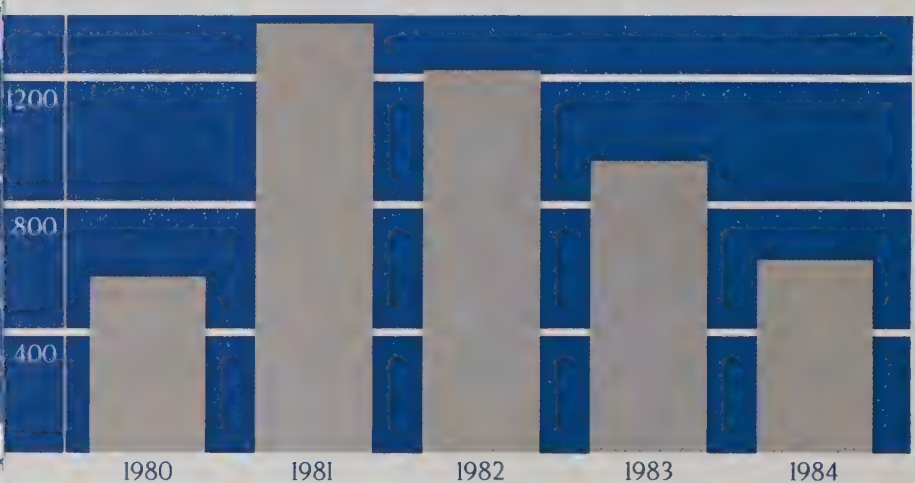
NEW FUNDS: Sources of funds of \$1.712 billion were obtained in 1984 compared to \$1.342 billion in 1983. Funds from operations of \$658.7 million represent an increase of \$71.3 million from \$587.4 million in 1983. The increase of 12% is principally due to the improved performance of Canadian petroleum operations.

The disposition of Husky's U.S. subsidiaries provided \$621.7 million. Funds from long term debt provided \$411.2 million compared to \$730.3 million in 1983. In both years these new sources of funds were used principally to finance



CONSOLIDATED ASSETS AT YEAR END

(Billions of dollars)



EXPENDITURES ON PLANT, PROPERTY AND EQUIPMENT FOR THE YEAR

(Millions of dollars)

capital expenditures and to reduce variable rate bank loans and notes.

Funds generated in 1984 were mainly utilized for capital expenditures on plant, property and equipment (\$624.1 million), retirement of long term debt (\$854.2 million) and payment of dividends to the shareholders of the Company (\$127.4 million). Working capital decreased by \$20.7 million in 1984.

CAPITAL EXPENDITURES: Expenditures for plant, property and equipment amounted to \$624.1 million in 1984 compared to \$933.8 million in 1983. The 1984 capital expenditures were incurred principally for petroleum properties, refining and marketing facilities and other petroleum facilities, including the cost of offshore drilling equipment (\$312.7 million), the expansion of the Alberta-based petrochemical complex (\$220.6 million), which principally represents the second ethylene plant and the linear low-density polyethylene plant, and Alberta Gas Transmission Division facilities expansion (\$61.3 million).

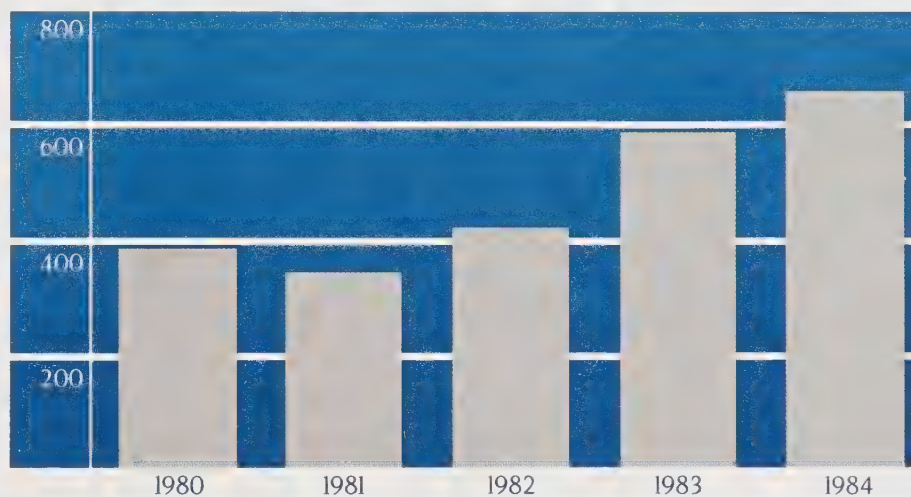
SHARE CAPITAL: Class 'A' common shares outstanding at December 31, 1984, totalled 125.3 million compared to 120.7 million a year previous. The increase in the number of Class 'A' common shares occurred primarily as a result of shares issued under the Dividend Reinvestment and Share Purchase Plan and the conversion of 6-3/8% Cumulative Redeemable Convertible Second Preferred Shares.

REPORTING ON INFLATION: The subject of disclosing the effects of inflation has been rigorously debated over the past few years. In response, the Canadian Institute of Chartered Accountants has issued its standard on "Reporting the Effects of Changing Prices."

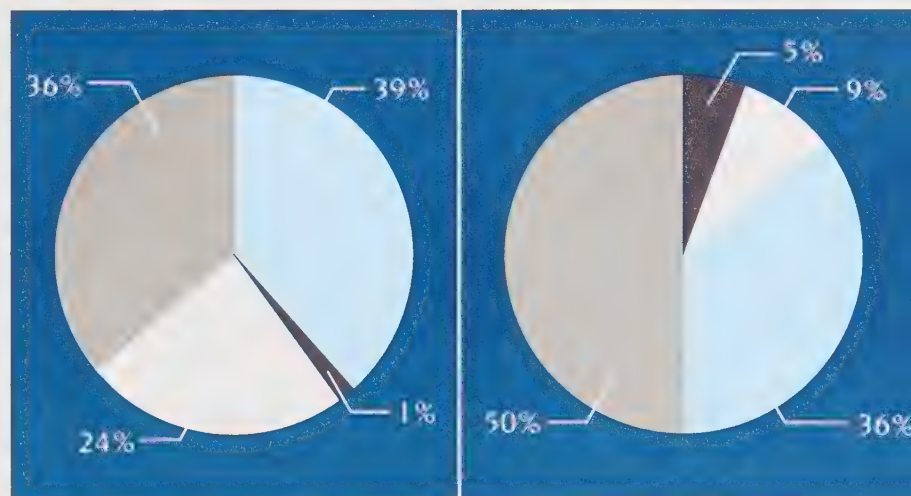
This standard recommends that companies should supplement their historical cost financial statements with financial information based on measurements of the current cost of inventory and plant, property and equipment and disclosure of the effects of changes in the general price level.

The Company has reviewed the standard and determined that such supplemental information might be misinterpreted and would not provide realistic information to shareholders attempting to assess the Company's operating and capital maintenance capabilities. This position is based on the fact that in excess of 50% of the Company's

plant, property and equipment is subject to rate regulation and cost of service agreements, which require rates of return and revenues on the basis of historical costs, as opposed to current costs. In addition, the Company is of the opinion that estimates of the value of its oil and gas reserves and undeveloped acreages based on price indexes, or other means as suggested in the standard, would be subject to considerable uncertainty and could result in information that is potentially misleading to its shareholders. The Company plans to continue to closely monitor the development and practice of this standard within Canadian industry.



FUNDS FROM OPERATIONS FOR THE YEAR
(Millions of dollars)



1984 SOURCE OF FUNDS

Operations
Disposition of subsidiaries
Long term debt additions
Other

1984 USE OF FUNDS

Long term debt reduction
Plant, property and equipment
Dividends
Other

SUPPLEMENTAL INFORMATION ON CONSOLIDATED LONG TERM DEBT

What are the implications of interest rates and foreign exchange relative to NOVA's consolidated long term debt position? This is a question asked frequently by our shareholders and by members of the investment community.

Because of the nature of our operations, the answer is complex. Gas transportation and marketing activities and certain petrochemical facilities operate

and certain operations within our Petrochemicals sector, principally the two ethylene plants.*

The graphs and other material on this page explain the degree to which the Company's consolidated earnings are affected by fluctuating interest rates and volatile currency exchange rates.

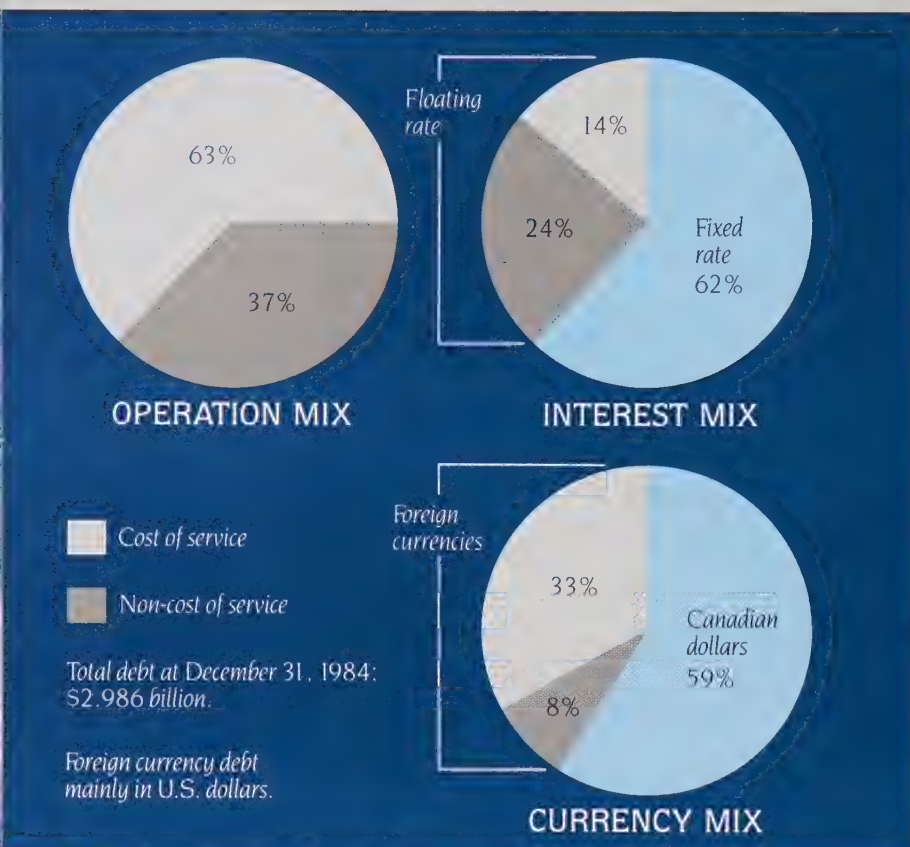
NOVA's consolidated long term debt amounted to \$2.986 billion at December 31, 1984, down \$499 million from the 1983 year-end figure primarily as a result of the sale of petroleum assets in the United States.

Of the total \$2.986 billion, \$1.888 billion or about 63% relates to investments in Gas Transportation & Marketing and Petrochemicals which operate under cost of service contracts or agreements. These provide for recovery of the principal portion of associated debt through collection of depreciation and amortization. These arrangements also insulate the Company to some extent from interest rate and foreign currency fluctuation. Interest expense is recovered through the rate of return, along with a return to NOVA's common shareholders. Any foreign exchange gains or losses are for the account of the customer.

INTEREST RATE MIX: About \$1.842 billion or 62% of the consolidated long term debt is financed at fixed rates and therefore not affected by interest rate fluctuations. Debt serviced at floating rates represents \$1.144 billion or 38% of the total \$2.986 billion. However, \$429 million of this floating rate debt relates to cost of service operations for which interest expense is recovered from the customer. The remaining \$715 million is sensitive to interest rate fluctuations and has a direct impact on NOVA's consolidated earnings.

CURRENCY EXCHANGE MIX: About \$1.759 billion or 59% of the total debt is in Canadian dollars. The remaining \$1.227 billion or 41% is denominated in foreign currencies, mainly U.S. dollars. Of this amount, \$973 million relates to cost of service operations and \$254 million to non-cost of service activities, on which the Company's consolidated earnings are affected by gains or losses on foreign currency fluctuations.

**The Company is directly or indirectly responsible for 38% of the second ethylene plant's output, which is used as feedstock in the linear low-density polyethylene plant.*



CONSOLIDATED LONG TERM DEBT

under contracts or other agreements that allow recovery of the costs associated with providing products and services. The major operations covered by these cost of service arrangements are the Alberta gas transmission system, the Alaska Highway Gas Pipeline Phase I sections, the Trans Québec & Maritimes Pipeline system

MANAGEMENT'S STATEMENT OF FINANCIAL REPORTING

The December 31, 1984, consolidated financial statements of NOVA, AN ALBERTA CORPORATION presented in the Annual Report have been prepared by management on a consistent basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies as outlined in Note 1 to the consolidated financial statements. The financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company maintains systems of internal accounting controls, policies and procedures in order to provide, on a reasonable basis, assurance as to the reliability of the financial information and the safeguarding of assets.

Clarkson Gordon, the Company's external auditors, have examined the December 31, 1984, consolidated financial statements, and their report follows.

The Audit Committee of the Board, which comprises directors who are not employees of the Company, has reviewed the consolidated financial statements, including the notes thereto, with management and both the internal and external auditors. The consolidated financial statements have been approved by the Board on the recommendation of the Audit Committee.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
NOVA, AN ALBERTA CORPORATION

We have examined the consolidated balance sheet of NOVA, AN ALBERTA CORPORATION as at December 31, 1984, and the consolidated statements of income, reinvested earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1984, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants

Calgary, Canada

March 1, 1985



CONSOLIDATED STATEMENT OF INCOME

(Thousands of dollars except for per share data)

	Total	
Year Ended December 31	1984	1983
Revenue		
Operating revenue	\$3,793,533	\$3,823,005
Intersegment revenue	—	—
	3,793,533	3,823,005
Costs and expenses		
Operating expenses	2,756,599	2,916,826
Intersegment expenses	—	—
Depreciation and depletion	289,283	307,959
Petroleum and gas revenue tax	55,550	43,610
Loss on foreign currency translation	15,113	10,547
	3,116,545	3,278,942
Net operating income	676,988	544,063
Equity in losses of affiliated companies	(6,367)	(8,605)
Allowance for funds used during development and construction	31,800	50,168
	25,433	41,563
Income before the undernoted items	702,421	585,626
Other (income) expenses	(1,551)	1,434
Interest expense (net) (Note 6)	341,765	317,031
Income before income taxes, minority interest and extraordinary items	362,207	267,161
Income taxes (Note 7)		
Current	3,679	(1,528)
Deferred	146,521	79,608
	150,200	78,080
Income before minority interest and extraordinary items	212,007	189,081
Minority interest	56,739	38,348
Income before extraordinary items	155,268	150,733
Extraordinary items (Note 12)	48,082	(115,605)
Net income	\$ 203,350	\$ 35,128
Earnings (loss) per common share (Note 13)		
Before extraordinary items		
Basic	\$ 0.63	\$ 0.60
Fully diluted	\$ 0.60	\$ 0.58
After extraordinary items		
Basic	\$ 1.02	\$ (0.38)
Fully diluted	\$ 0.77	\$ (0.38)

See accompanying notes to consolidated financial statements.

Gas Transportation & Marketing		Petroleum		Petrochemicals		Manufacturing	
1984	1983	1984	1983	1984	1983	1984	1983
\$1,492,489	\$1,496,813	\$1,607,090	\$1,674,872	\$587,685	\$521,988	\$106,269	\$129,332
2,809	1,452	15,264	8,048	—	—	—	—
1,495,298	1,498,265	1,622,354	1,682,920	587,685	521,988	106,269	129,332
1,051,648	1,098,631	1,123,502	1,257,812	474,408	438,353	107,041	122,030
8,688	7,873	608	1,160	8,777	467	—	—
84,276	76,315	159,829	194,090	38,679	31,069	6,499	6,485
—	—	55,550	43,610	—	—	—	—
3,276	1,424	9,408	7,281	2,429	1,842	—	—
1,147,888	1,184,243	1,348,897	1,503,953	524,293	471,731	113,540	128,515
347,410	314,022	273,457	178,967	63,392	50,257	(7,271)	817
—	—	—	—	(3,898)	(4,348)	(2,469)	(4,257)
3,123	12,294	—	—	28,677	37,874	—	—
3,123	12,294	—	—	24,779	33,526	(2,469)	(4,257)
\$ 350,533	\$ 326,316	\$ 273,457	\$ 178,967	\$ 88,171	\$ 83,783	\$ (9,740)	\$ (3,440)



CONSOLIDATED BALANCE SHEET

(Thousands of dollars)

ASSETS

December 31	1984	1983
Current Assets		
Cash and short term deposits	\$ 7,070	\$ 74,924
Accounts receivable	660,238	698,418
Inventories (Note 2)	224,097	307,158
Subsidiaries and assets held for sale (Note 12)	111,142	—
Prepaid expenses	8,315	10,127
	1,010,862	1,090,627
Investments and Advances (Note 3)	103,019	94,528
Plant, Property and Equipment (Note 4)	6,080,891	6,589,882
Less accumulated depreciation and depletion	(890,595)	(1,048,081)
	5,190,296	5,541,801
Other Assets (Note 5)	123,712	69,100

\$6,427,889

\$6,796,056

On behalf of the Board:

Director

Director

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

December 31	1984	1983
Current Liabilities		
Bank loans (Note 6)	\$ 90,416	\$ 179,486
Accounts payable and accrued liabilities	657,974	712,826
Income taxes payable	80,548	5,781
Deferred income taxes	—	21,074
Dividends payable	31,926	31,832
Long term debt instalments due within one year (Note 6)	111,474	80,355
	972,338	1,031,354
Long Term Debt (Note 6)	2,874,278	3,404,578
Deferred Income Taxes	496,802	434,729
Minority Interest in Subsidiary Companies (Note 8)	560,954	485,075
Shareholders' Equity		
Capital stock		
Non-convertible preferred shares (Note 9)	312,286	321,093
Convertible preferred shares (Note 9)	468,308	479,814
Common shares (Note 10)	172,734	143,526
Contributed surplus	228,171	226,567
Cumulative translation adjustment (Note 11)	5,676	8,889
Reinvested earnings	336,342	260,431
	1,523,517	1,440,320
Contingencies and Commitments (Note 16)		
	\$6,427,889	\$6,796,056



CONSOLIDATED STATEMENT OF REINVESTED EARNINGS

(Thousands of dollars)

Year Ended December 31	1984	1983
Balance at beginning of year	\$260,431	\$352,447
Net income	203,350	35,128
	463,781	387,575
Less dividends paid or payable		
Preferred shares	77,992	79,563
Common shares	49,447	47,581
	127,439	127,144
Balance at end of year	\$336,342	\$260,431

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

(Thousands of dollars)

Year Ended December 31	1984	1983
Balance at beginning of year	\$226,567	\$224,991
Gain on purchase of preferred shares for cancellation	1,604	1,631
Capital stock issue expenses	—	(55)
Balance at end of year	\$228,171	\$226,567

See accompanying notes to consolidated financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Thousands of dollars)

Year Ended December 31	1984	1983
Source of funds		
Operations (Note 14)	\$ 658,681	\$ 587,379
Disposition of subsidiaries	622,877	27,915
Less working capital of subsidiaries sold	(1,179)	(25,972)
Long term debt	411,197	730,304
Common shares	29,208	28,485
Less common shares issued on conversion of preferred shares	(5,421)	(11,744)
Other	(3,389)	5,707
	\$1,711,974	\$1,342,074
Use of funds		
Plant, property and equipment (Note 19)	\$ 624,073	\$ 933,807
Other assets	12,381	24,971
Investments and advances	36,369	28,075
Reduction of long term debt	854,151	115,406
Purchase of preferred shares for cancellation	13,288	11,840
Redemption of preferred shares issued by subsidiaries	25,725	25,725
Dividends to —		
Shareholders	127,439	127,144
Minority shareholders of subsidiaries	31,167	32,001
Valuation of subsidiaries and assets held for sale	8,130	—
Working capital increase (decrease)	(20,749)	43,105
	\$1,711,974	\$1,342,074



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1984

1. SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards. The accounting policies of significance to the Company are as follows:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all subsidiaries, principally:

100% Owned

The Alberta Gas Ethylene Company Ltd.
A. G. Investments Ltd.
A. G. Pipe Lines (Canada) Ltd.
A. G. Pipe Lines Inc.
Grove Valve and Regulator Company*
NOVA Energy Systems Inc.
Novacor Chemicals Ltd.
Novacorp Engineering Services Ltd.
Novacorp International Consulting Ltd.
Novacorp Pipelines Ltd.
Novalta Properties Ltd.
Novalta Resources Ltd.
WAGI International S.p.A.*

Partially Owned

Husky Oil Ltd.
(1984 - 67.05% owned;
1983 - 67.56% owned)
Pan-Alberta Gas Ltd.
(50.005% owned)

*Held for sale at December 31, 1984.

Companies acquired have been accounted for using the purchase method.

Investments in the Alaska Highway Gas Pipeline Project, the Trans Québec & Maritimes Pipeline Project (TQM Pipeline) and certain petrochemical investments are accounted for by the proportionate consolidation method and, accordingly, the accounts reflect only the Company's proportionate interest in such activities. The Company's investment in the Alaska Highway Gas Pipeline Project is represented by its direct and indirect percentage ownership in Foothills Pipe Lines (Yukon) Ltd. and its subsidiaries.

COST OF SERVICE

Gas Transportation & Marketing and certain Petrochemicals operations are subject to cost of service or tariff agreements. Under such agreements the Company is entitled to recover reasonable and necessary operating expenses, cost of feedstock and fuel, depreciation, amortization, income and other taxes, foreign exchange gains or losses in respect of debt service and a rate of return on investment.

FOREIGN CURRENCY TRANSLATION

Foreign operations which are considered financially and operationally independent of the parent have been translated to Canadian dollars using the year end rate of exchange ("current rate") for assets and liabilities and average rates for the year for the statement of income. Gains or losses resulting from these translation adjustments are deferred in a separate component of shareholders' equity (the "cumulative translation adjustment" account) until there is a realized reduction of the net investment in the foreign operation.

Foreign operations which are considered financially and operationally dependent on the parent company together with foreign operations which are operating under highly inflationary economic conditions have been translated to Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange for non-monetary assets and liabilities and average rates for the year for revenue and expenses, except depreciation and depletion which are translated at the rate of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments are included in income.

Foreign denominated long term monetary items of Canadian operations are translated at the current rate of exchange. The unrealized translation gains or losses are deferred and amortized over the remaining lives of the long term monetary items, except for translation gains or losses relating to cost of service activities which are recovered from customers.

Prior to January 1, 1983, accounts in foreign currencies were translated to Canadian dollars using current rates of exchange for current assets and liabilities, historical rates of exchange for non-current assets and liabilities and average rates for the year for revenue and expenses, except depreciation and depletion which were translated at the rate of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments were included in income.

INVENTORIES

Inventories are carried at the lower of cost, as determined on a first-in, first-out basis, and net realizable value. Refined oil product inventory costs are determined by allocating costs to products on the basis of the relative market value of the product.

INVESTMENTS AND ADVANCES

The Company accounts for its investments in Alberta Gas Chemicals Ltd., CNG Fuel Systems, NovAtel Communications Ltd., Steel Alberta Ltd. and Western Star Trucks Inc. (all 50% owned) by the equity method. Under this method, the investment is carried at cost plus the related equity in undistributed earnings less the amortization of the excess of the purchase price over the net book value at date of acquisition. Portfolio and other investments are carried at cost.

PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment are carried at cost; maintenance and repair costs of a routine nature are expensed as incurred; renewals and betterments which

extend the economic useful life of plant, property and equipment are capitalized.

The Company follows the full cost method of accounting for oil and gas interests whereby all costs of acquisition, exploration for and development of oil and gas reserves are capitalized. Such costs are generally limited by a "ceiling test" to the value of the estimated future net revenues from production of proved reserves, at current prices and costs, plus the estimated value of unevaluated properties.

DEPRECIATION AND DEPLETION

Plant, property and equipment (except for Gas Transportation & Marketing plant, certain buildings, intangible petroleum costs and tangible petroleum costs in the Philippines prior to May 31, 1984) are depreciated on a straight-line basis at annual rates varying from 3% to 33-1/3% which rates are designed to write these assets off over their estimated useful lives. Depreciation for the Alberta Gas Transmission Division plant approximated a composite rate of 3.3% on costs in 1984 (1983 — 3.2%). Depreciation for the Alaska Highway Gas Pipeline — Phase I plant approximated a composite rate of 4% on costs in 1984 and 1983. Depreciation for the TQM Pipeline plant approximated a composite rate of 3% in 1984 (1983 — 2.4%). Certain buildings are depreciated by the sinking fund method at an annual rate of 5%.

In Canada, oil and gas interests are segregated into three major cost centres: the Lloydminster heavy oil area, the frontier regions and all other areas of Canada. The Company computes depletion expense relative to intangible costs in the Canadian cost centres by the revenue method. Under this method, the ratio of current year revenues to total current and future years' revenues from the production of proved reserves, as determined by the Company's engineers, determines the proportion of depletable costs to be expensed. Depletion expense is not calculated relative to the frontier regions of Canada until such time as economically recoverable reserves are established. Costs incurred in all frontier regions at December 31, 1984 and 1983, amounted to \$114,008,000 and \$57,366,000 respectively.

The Company sold its oil and gas operations in the United States and most of its producing interests outside of North America effective May 31, 1984. Prior to May 31, 1984, oil and gas interests in the United States and the Philippines were segregated into single cost centres for each country and intangible costs were depleted on a composite unit of production method based upon proved developed reserves, as estimated by the Company's engineers. Tangible costs in the Philippines were depreciated on the composite unit of production basis. Depletion expense was not calculated relative to certain major exploration and development projects in the United States until such time as economically recoverable reserves were established.

The costs of acquiring and exploring for oil and gas reserves in each area where the Company has an interest outside of North America are amortized on a straight-line basis at an annual rate of 20%. When it is determined that proved reserves exist, the unamortized costs will be depleted by the composite unit of production method.

The unamortized costs of an abandoned area are charged against earnings at the time of abandonment. Unamortized costs at December 31, 1984 and 1983, amounted to \$19,042,000 and \$23,372,000 respectively.

ALLOWANCE FOR FUNDS USED DURING DEVELOPMENT AND CONSTRUCTION

For Gas Transportation & Marketing and in certain Petrochemicals operations, regulatory authorities or agreements provide for a return on capital invested in new plant while under construction by capitalizing an allowance for funds used during development and construction. For Gas Transportation & Marketing facilities subject to regulation, the rate is the approved rate of capitalization and for certain Petrochemicals facilities the rate is the agreed cost of capital.

CAPITALIZED INTEREST

Interest is capitalized on certain oil and gas interests undergoing exploration and development activities that are not subject to depletion or amortization and on costs incurred during the construction of major additions to plant, property and equipment. Once the exploration or development activities are complete, or the facility commences operations, subsequent interest costs are charged to income.

DEFERRED PROJECT COSTS

Costs relating to projects which may benefit future periods are deferred during the development phase. Deferred costs applicable to projects which have been terminated or significantly delayed are expensed.

LONG TERM DEBT

Short term borrowings which are expected to be repaid from the proceeds of long term financing are included in long term debt.

Capital lease obligations which relate to transactions that are similar in nature to a purchase have been capitalized and included in long term debt.

Unamortized debt discount and expense are being amortized over the terms of the respective issues.

INCOME TAXES

The Company follows the deferral method of tax allocation accounting on all income except for certain Gas Transportation & Marketing and Petrochemicals operations which are subject to cost of service or tariff agreements. Under this method, the Company makes a full provision for income taxes deferred principally as a result of claiming capital cost allowance and exploration and development costs for income tax purposes in excess of depreciation and depletion provided in the accounts. Income taxes on certain operations subject to cost of service or tariff agreements are provided on the taxes payable method whereby the income tax provision represents only the income taxes deemed to be currently payable and thus recoverable under the billing mechanism in place. Investment tax credits are recorded as a reduction to the income tax provision when realization is reasonably assured.

PETROLEUM INCENTIVES

Federal and provincial exploration incentives (principally, the Petroleum Incentive Program) are accounted for as a reduction to plant, property and equipment. Amounts received from the Saskatchewan provincial government relative to its oil and gas incentive regulations are credited against provincial royalties.

PENSION AND RETIREMENT PLANS

The Company and its subsidiaries maintain pension and retirement plans for substantially all employees. Charges to income are determined from actuarial valuations of the pension plans.

EARNINGS PER COMMON SHARE

Basic earnings per common share before and after extraordinary items are calculated after deducting the dividend entitlement on preferred shares from the income

before extraordinary items and net income, respectively, and dividing the resulting amounts using the weighted average number of shares outstanding during the period. The calculation includes the Company's share of the reported income of subsidiaries based on its undiluted interest.

The calculation of earnings per common share on a fully diluted basis before and after extraordinary items also assumes conversion of those securities of the Company and its subsidiaries and the exercise of all stock options of the Company and its subsidiaries, as at the beginning of the year, which would have had a dilutive effect on basic earnings per common share.

COMPARATIVE FIGURES

Certain comparative figures for the year ended December 31, 1983, have been reclassified to conform to the current year's financial statement presentation.

2. INVENTORIES

(Thousands of dollars)

December 31	1984	1983
Gas Transportation	\$ 27,775	\$ 24,048
Petroleum	148,614	220,600
Petrochemicals	47,708	26,843
Manufacturing (Note 12)	—	35,667
	\$224,097	\$307,158

3. INVESTMENTS AND ADVANCES

(Thousands of dollars)

December 31	1984	1983
Alberta Gas Chemicals Ltd.	\$ 16,652	\$ 28,133
CNG Fuel Systems	16,609	19,124
NovAtel Communications Ltd. (Note 12)	33,037	17,969
Steel Alberta Ltd.	20,269	16,373
Western Star Trucks Inc.	12,339	8,978
Portfolio and other investments	4,113	3,951
	\$103,019	\$ 94,528

4. PLANT, PROPERTY AND EQUIPMENT

(Thousands of dollars)

December 31	1984			1983
	Cost	Accumulated Depreciation and Depletion	Net	Net
Gas Transportation & Marketing				
Plant in service	\$2,516,283	\$ 515,578	\$2,000,705	\$2,026,294
Plant under construction	50,156	—	50,156	30,714
Petroleum				
Petroleum properties and production equipment	1,307,506	176,040	1,131,466	1,525,434
Refining and marketing facilities	367,164	12,681	354,483	438,133
Other facilities	203,374	27,288	176,086	163,602
Petrochemicals				
Plant in service	1,460,745	151,551	1,309,194	443,402
Plant under construction	—	—	—	699,538
Manufacturing (Note 12)	—	—	—	48,212
Other	175,663	7,457	168,206	166,472
	\$6,080,891	\$ 890,595	\$5,190,296	\$5,541,801

5. OTHER ASSETS

(Thousands of dollars)

December 31	1984	1983
Deferred project costs	\$ 9,892	\$ 10,575
Unamortized debt discount and expense	11,909	9,202
Unamortized translation adjustments	101,911	49,323
	\$123,712	\$ 69,100

6. LONG TERM DEBT

(Thousands of dollars)

December 31		1984	1983
	(Maturity)		
NOVA, AN ALBERTA CORPORATION			
First Mortgage Sinking Fund Bonds			
5-1/2% Series C	1985	\$ 1,812	\$ 2,472
8-3/4% Series D (1984 — U.S. \$25,700; 1983 — U.S. \$29,700)	1989	33,968	36,959
Secured Debentures			
5-3/4% Series B	1985	14,954	14,954
Unsecured Debentures			
9-3/4% Series 2	1990	15,027	15,801
9-1/4% Series 3	1990	13,990	14,412
8% Series 4	1991	39,762	40,979
8-1/8% Series 5	1992	28,768	29,484
11-3/8% Series 6	1995	49,285	51,471
17-1/2% Series 7	1987	75,000	75,000
17-3/4% Series 8	1997	50,000	50,000
12-1/8% Series 9	1993	100,000	100,000
14% Series 10	1989	100,000	—
12% Series 11	1990	125,000	—
16-1/4% (1984 and 1983 — U.S. \$100,000)	1989	132,170	124,440
Unsecured Term Notes			
16-1/8% — average (1984 and 1983 — U.S. \$110,000)	1987	145,386	136,884
6-1/4% (Swiss Francs 75,000)	1991	38,085	—
		963,207	692,856
Bank loans and notes (unsecured)		352,598	370,294
		1,315,805	1,063,150
Foothills (Yukon) — Phase I	1996	288,431	322,779
TQM Pipeline			
First Mortgage Bonds			
13.10% Series A	1994	50,000	—
13.20% Series B	2004	50,000	—
Term loans	1987	70,000	—
Bank loans		—	164,782
		170,000	164,782
Husky Oil Ltd. and subsidiaries			
Sinking Fund Debentures			
6% Series A		—	5,085
6-3/4% Series B	1987	9,750	10,500
8-1/2% Series C	1991	9,338	9,831
Notes payable and other loans — secured and unsecured with interest rates averaging 11% (1983 — 10-3/4%)			
Canadian dollars	1989	120,000	660,000
United States dollars (1984 — U.S. \$85,209; 1983 — U.S. \$271,525)	Various	112,613	337,773
Capital lease obligations (1983 — U.S. \$7,546)		—	9,390
		251,701	1,032,579
Novalta Resources			
Income Debentures (1984 — U.S. \$35,723; 1983 — U.S. \$39,742)	1986-1989	47,215	49,454
Alberta Gas Ethylene			
Ethylene Plant I			
8-1/4% Secured Notes (1984 — U.S. \$199,720; 1983 — U.S. \$213,985)	1998	263,970	266,286
5-3/8% First Income Debentures (1984 — U.S. \$199,720; 1983 — U.S. \$213,985)	1987	263,970	266,286
Less 8-1/4% certificates of deposit (1984 — U.S. \$199,720; 1983 — U.S. \$213,985) pledged as security against the First Income Debentures	1987	(263,970)	(266,286)
		263,970	266,286

December 31		1984	1983
	(Maturity)		
Ethylene Plant II			
DCS loans (1984 — U.S. \$251,836; 1983 — U.S. \$189,000)	2004	332,851	235,192
13-3/4% Series A Secured Notes (U.S. \$48,958)	2004	64,708	—
Secured bank loans	1985	34,800	66,000
		432,359	301,192
		696,329	567,478
Cochin Pipe Line and Ethane Gathering System			
A. G. Pipe Lines (Canada) Ltd.	1998	25,400	27,200
A. G. Pipe Lines Inc.			
(1984 — U.S. \$32,400; 1983 — U.S. \$34,425)	2000	42,823	42,839
		68,223	70,039
Polyvinyl Chloride Plant			
(1983 — U.S. \$34,203)		—	42,563
Novalta Properties	1986-1998	98,824	99,061
Other loans	Various	49,224	73,048
		2,985,752	3,484,933
Less instalments due within one year		111,474	80,355
		\$2,874,278	\$3,404,578

NOVA, AN ALBERTA CORPORATION

The First Mortgage Sinking Fund Bonds, Series C and D, are secured by a first fixed and specific mortgage, pledge and charge and a first floating charge on the assets of the Company. The Secured Debentures, Series B, are secured in the same manner, subject to the prior charge of the First Mortgage Sinking Fund Bonds.

The interest rate on the unsecured bank loans and notes at December 31, 1984, was approximately 11% (9-5/8% at December 31, 1983).

FOOTHILLS (YUKON) — PHASE I

In connection with the financing of Phase I of the Alaska Highway Gas Pipeline, Foothills Pipe Lines (Yukon) Ltd. has arranged long term financing with Canadian chartered banks. At December 31, 1984, \$571,881,000 (\$638,209,000 at December 31, 1983) is outstanding pursuant to this financing of which the Company's proportionate share is \$288,431,000 (\$322,779,000 at December 31, 1983). Foothills' bankers have agreed, subject to certain conditions, to a repayment schedule which provides for the major portion of this financing to have matured by December 31, 1992, with the balance maturing December 31, 1996. These consolidated financial statements reflect this new repayment schedule. This financing is secured by the assignment of the interest of Foothills (Yukon) and three of its subsidiaries in certain agreements and floating charges on their respective properties and assets. The interest rate at December 31, 1984, was approximately 12% (11-3/4% at December 31, 1983).

TQM PIPELINE

The First Mortgage Bonds and the term loans are secured by a first fixed and specific charge on the TQM Pipeline system, a pledge, charge and assignment of gas transportation service contracts and gas sales agree-

ments and a floating charge on other property. The term loans bear interest at fluctuating rates related to Canadian bank prime rates. The interest rate at December 31, 1984, was approximately 11-1/5%.

HUSKY OIL LTD. AND SUBSIDIARIES

The Series B and C Sinking Fund Debentures are secured by the common shares of certain wholly owned subsidiaries of Husky and a first floating charge on all other assets of Husky and certain of its subsidiaries. Certain notes payable and other loans of \$232,613,000 at December 31, 1984 (\$770,117,000 at December 31, 1983) are secured by certain assets, properties and the assignment of certain contracts.

NOVALTA RESOURCES

Security for the Income Debentures includes natural gas properties and a general assignment of book debts. Interest on these Income Debentures varies with the London Inter Bank Offered Rate and was approximately 6-3/4% at December 31, 1984 and 1983.

ETHYLENE PLANT I

The proceeds from the issuance of the 8-1/4% Secured Notes are invested in certificates of deposit which bear interest equivalent to that due on the Secured Notes. The Secured Notes are guaranteed by The Alberta Gas Ethylene Company Ltd. and are secured by a first fixed and floating charge on the first ethylene plant, the ethylene pipeline and related assets of Alberta Gas Ethylene and by the assignment of certain related contracts.

The 5-3/8% First Income Debentures were issued simultaneously with the issuance of the Secured Notes and are secured by the certificates of deposit referred to in the previous paragraph.

ETHYLENE PLANT II

In respect of financing a portion of the second ethylene plant, Alberta Gas Ethylene entered into a loan agreement with DCS Capital Partnership, a Delaware partnership. The partners of DCS Capital Partnership are affiliates of The Dow Chemical Company, Union Carbide Corporation and Shell Canada Limited. The loans are secured, pursuant to a trust deed, by charges on certain of the proceeds of the ethylene sales contracts for the second ethylene plant, a first charge on the related performance guarantees of Dow and Union Carbide, a first charge on the plant construction agreement and a first fixed charge on a 76% undivided interest in the second ethylene plant and certain related agreements. The interest rate at December 31, 1984, was approximately 12% (10-1/2% at December 31, 1983).

Alberta Gas Ethylene has entered into an agreement with two Canadian banks to provide a revolving credit facility, of which \$34,800,000 was outstanding at December 31, 1984, to finance on an interim basis a portion of the costs related to the second ethylene plant not otherwise financed. The facility, which replaces the previous unsecured credit facility, is secured, pursuant to the DCS Capital Partnership trust deed, by charges on certain of the proceeds of the ethylene sales contracts related to the second ethylene plant, a second charge on the related performance guarantees of Dow and Union Carbide, a first charge on the plant construction agreement and a first fixed charge on a 24% undivided interest in the second ethylene plant and certain related agreements. The Company has undertaken to use its best efforts to cause Alberta Gas Ethylene to arrange alternate financing by June 30, 1985, to replace this credit facility and to retain beneficial ownership and control of at least 51% of the issued common shares of Alberta Gas Ethylene. The interest rate at December 31, 1984, was approximately 11-2/5% (11% at December 31, 1983).

Alberta Gas Ethylene has issued U.S. \$50,000,000 of 13-3/4% Series A Secured Notes due July 1, 2004, to five financial institutions. The Series A Secured Notes, of which U.S. \$48,958,000 is outstanding at December 31, 1984, are secured, on a *pari passu* basis, in the same manner as the revolving bank credit facility and a guarantee of the Company, applicable in certain events, in respect of a portion of the interest payable on the Series A Secured Notes.

COCHIN PIPE LINE AND ETHANE GATHERING SYSTEM

A. G. Pipe Lines (Canada) Ltd., in connection with long term financing of its share of the cost of the Canadian segment of the Cochin Pipe Line and of the Ethane Gathering System, has entered into a loan agreement with certain banks which provides for a term credit facility consisting of term loans and/or bankers' acceptances of which \$25,400,000 is outstanding at December 31, 1984

(\$27,200,000 at December 31, 1983). The term credit facility expires on December 31, 1998, and is secured by a first floating charge on a portion of the assets of A. G. Pipe Lines (Canada) Ltd., and a first fixed charge on certain agreements. The interest rate on the term credit facility was approximately 11-5/8% at December 31, 1984 (11-3/8% at December 31, 1983).

A. G. Pipe Lines Inc., in connection with the long term financing of its share of the cost of the United States segment of the Cochin Pipe Line, pursuant to a loan agreement, has issued promissory notes of which U.S. \$32,400,000 are outstanding at December 31, 1984 (U.S. \$34,425,000 outstanding at December 31, 1983) which mature on various dates to December 31, 2000. These promissory notes are secured by an assignment of the interest of A. G. Pipe Lines Inc. in certain agreements (insofar as they relate to the United States segment of the Cochin Pipe Line), by the guarantee of A. G. Pipe Lines (Canada) Ltd., and by a pledge of the outstanding shares of A. G. Pipe Lines Inc. The interest rate varies with the London Inter Bank Offered Rate and was approximately 9-1/5% at December 31, 1984 (10-1/2% at December 31, 1983).

NOVALTA PROPERTIES

Novalta Properties Ltd., in connection with the financing of the Company's head office building, has arranged a term credit facility with a Canadian chartered bank of which \$98,824,000 was outstanding at December 31, 1984 (\$99,061,000 at December 31, 1983). This term credit facility is secured by the hypothecation of the title to the property and is repayable in varying amounts commencing in 1986 with final maturity in 1998. The interest rate at December 31, 1984, was approximately 11% (9-5/8% at December 31, 1983).

OTHER LOANS

Other loans of \$49,224,000 at December 31, 1984 (\$73,048,000 at December 31, 1983) include loans of \$36,655,000 (\$58,595,000 at December 31, 1983) which are secured by certain assets and agreements. The average interest rate on the other loans approximated 11-1/8% at December 31, 1984 (10-3/5% at December 31, 1983).

SINKING FUND AND REPAYMENT REQUIREMENTS

Sinking fund and repayment requirements in respect of long term debt maturing within five years following December 31, 1984, are: 1985 — \$111,474,000; 1986 — \$104,193,000; 1987 — \$329,061,000; 1988 — \$114,495,000; 1989 — \$380,885,000.

CURRENT BANK LOANS

Current bank loans of \$90,416,000 at December 31, 1984 (\$179,486,000 at December 31, 1983) include loans of \$73,337,000 (\$156,234,000 at December 31, 1983) which are secured by certain assets and agreements.

INTEREST EXPENSE (NET)

(Thousands of dollars)

Year Ended December 31	1984	1983
Interest and expense on long term debt	\$372,458	\$349,473
Interest on short term debt	18,855	28,094
Interest capitalized	(30,477)	(38,096)
Interest income	(19,071)	(22,440)
	\$341,765	\$317,031

7. INCOME TAXES

(Thousands of dollars)

For Gas Transportation & Marketing and certain of the Petrochemicals operations, charges to customers are based on cost of service or tariff agreements. Because income taxes related to these operations are a component of the charges, the billing for such income taxes on either a taxes payable or tax allocation basis

does not affect net income.

Income tax expense varies from the amounts that would be computed by applying the Canadian federal and provincial income tax rates to income before income taxes, minority interest and extraordinary items as shown in the following table:

Year Ended December 31	1984	1983
Income before income taxes, minority interest and extraordinary items	\$362,207	\$267,161
Less: Cost of service activities		
Gas Transportation & Marketing	196,754	175,593
Petrochemicals	25,106	16,467
Equity component in allowance for funds used during development and construction	13,225	20,882
Equity in losses of affiliated companies	(6,367)	(8,605)
	\$133,489	\$ 62,824
Effective Canadian tax rate	47.0%	47.9%
Calculated income tax expense	\$ 62,740	\$ 30,093
Add (deduct) adjustments to income taxes resulting from —		
Royalties, lease rentals and mineral taxes payable to the Crown	37,713	40,019
Petroleum and gas revenue tax	25,614	20,082
Resource allowance on Canadian production income	(50,280)	(42,576)
Earned depletion	(7,662)	(12,905)
Investment tax credits	(14,843)	(17,006)
Alberta royalty tax credit	(4,002)	(6,128)
Non-allowable depreciation and depletion	13,901	12,036
Earnings from foreign subsidiaries with lower effective tax rates	(3,904)	(8,922)
Other	7,870	2,132
	67,147	16,825
Add income taxes billed under cost of service contracts	83,053	61,255
Income tax expense	\$150,200	\$ 78,080

8. MINORITY INTEREST IN SUBSIDIARY COMPANIES

(Thousands of dollars)

December 31	1984	1983
A. G. Investments Ltd.		
Canadian dollars	\$ 89,250	\$102,000
United States dollars (1984 — U.S. \$76,129; 1983 — U.S. \$87,004)	100,620	108,267
	189,870	210,267
Husky Oil Ltd.	360,429	264,863
Other	10,655	9,945
	\$560,954	\$485,075

In connection with the acquisition of Husky Oil Ltd., A. G. Investments Ltd. issued \$255,000,000 variable rate, cumulative, redeemable, senior preferred shares. The preferred shares are redeemable at the option of A. G. Investments and are required to be redeemed as to 10% of the initial issue on September 30 of each year to 1988, with the balance payable on September 30, 1989. These shares are redeemable at the option of the holder in certain events. The dividend rate is 52% of the prime commercial lending rate of a Canadian chartered bank plus 1-1/4% for those denominated in Canadian dollars and 52% of the London Inter Bank Offered Rate of a Canadian chartered bank plus 1-1/4% for those denominated in United States dollars. The variable dividend rate approximated 7-1/4% at December 31, 1984 (7-1/8% at December 31, 1983). The Husky shares owned by A. G. Investments have been pledged as collateral security.

The minority interest in Husky includes Husky's 13% cumulative, redeemable, convertible, retractable, junior preferred shares, Series A of a par value of \$25.00 (Series A preferred shares) of which \$90,655,000 was outstanding at December 31, 1984 (\$91,132,000 at December 31, 1983).

The Series A preferred shares are convertible, at the option of the holder, into common shares of Husky at any time on or prior to July 1, 1992, or the third business day prior to the date fixed for redemption, whichever is

earlier. Each Series A preferred share is convertible on the basis of four common shares of Husky for one Series A preferred share.

The Series A preferred shares are not redeemable on or prior to July 1, 1985. On and after July 2, 1985, and prior to July 2, 1987, the Series A preferred shares are redeemable only if the common shares have traded for a specified period at a weighted average price not less than 130% of the conversion price. Subject to the foregoing, the Series A preferred shares are redeemable at the option of Husky on and after July 2, 1985, and prior to July 2, 1989, at \$28.00 per share and after July 1, 1989, at \$27.25 per share declining by \$0.75 each year to \$25.00 in 1992, in each case, plus an amount equal to accrued and unpaid dividends. The Series A preferred shares are also retractable at the option of the holder by deposit on or before June 23, 1989, for redemption on July 1, 1989, at \$28.00 per share plus accrued and unpaid dividends.

If all of the outstanding Series A preferred shares had been converted into common shares of Husky as at December 31, 1984, the Company estimates that the loss on dilution of its ownership in Husky (from 67.05% to approximately 56.7%) would have been approximately \$56,000,000. If and when the conversion of the Series A preferred shares occurs, the Company will record any resulting gain or loss as an extraordinary item.

9. PREFERRED SHARES

(a) AUTHORIZED

2,000,000 cumulative redeemable non-convertible first preferred shares of a par value of \$100 each.
20,500,000 cumulative redeemable non-convertible first preferred shares of a par value of \$25 each.
26,120,000 cumulative redeemable convertible second preferred shares of a par value of \$25 each.

On December 18, 1984, the Company increased the number of authorized First Preferred Shares of the par value of \$25.00 each from 16,500,000 to 20,500,000 First

Preferred Shares and designated 4,000,000 shares thereof as 9-1/8% Cumulative Redeemable Fixed/Floating Rate First Preferred Shares (Note 17).

(b) ISSUED AND OUTSTANDING

December 31		1984	1983	1984	1983
	(Par value)	(Number of shares)		(Thousands of dollars)	
Non-convertible first preferred shares					
4-3/4% Series C	\$ 100	71,700	83,718	\$ 7,170	\$ 8,372
7-3/4%	\$ 25	736,986	773,811	18,425	19,345
9-3/4%	\$ 25	1,003,433	1,080,442	25,086	27,011
9.76 %	\$ 25	1,480,024	1,580,414	37,000	39,510
7.60 %	\$ 25	2,484,200	2,574,200	62,105	64,355
15%	\$ 25	2,500,000	2,500,000	62,500	62,500
11.24 %	\$ 25	4,000,000	4,000,000	100,000	100,000
		12,276,343	12,592,585	\$312,286	\$321,093
Convertible second preferred shares					
6-3/8%	\$ 25	1,092,955	1,309,361	\$ 27,324	\$ 32,734
6-1/2%	\$ 25	7,443,075	7,686,825	186,077	192,171
12%	\$ 25	10,196,270	10,196,370	254,907	254,909
		18,732,300	19,192,556	\$468,308	\$479,814

(c) COMMENTARY

The following is a summary of material characteristics of the preferred shares:

Preferred Share Issue (i)	Par Value	Redeemable at the Company's Option (ii)	Sinking Fund and Purchase Fund Requirements (vii)
Non-convertible First Preferred Shares			
4-3/4% Series C	\$ 100	at \$102.00 per share on or before May 15, 1985, and at reducing amounts thereafter	purchase funds of \$825,000 annually, or such lesser amount as would increase the funds to \$1,650,000 for the purchase for cancellation, if and when available at a price not in excess of \$100.00 per share plus costs of purchase (vii) (x)
7-3/4%	\$ 25	at \$26.00 per share on or before May 15, 1985, and at reducing amounts thereafter	purchase funds of \$750,000 annually, or such lesser amount as would increase the funds to \$1,500,000 for the purchase for cancellation, if and when available at a price not in excess of \$25.00 per share (vii) (x)
9-3/4%	\$ 25	at \$25.50 per share on or before May 15, 1985, and at reducing amounts thereafter	purchase 64,000 shares annually at a price not in excess of \$25.00 per share on May 15 of each year under a cumulative mandatory sinking fund (vii) (viii) (x)
9.76%	\$ 25	at \$25.50 per share on or before November 15, 1985, and at reducing amounts thereafter	purchase 96,000 shares annually at a price not in excess of \$25.00 per share on November 15 of each year under a cumulative mandatory sinking fund (vii) (viii) (x)
7.60%	\$ 25	at \$26.00 per share on or before February 15, 1985, and at reducing amounts thereafter	purchase 90,000 shares annually at a price not in excess of \$25.00 per share (vii) (x)
15%	\$ 25	on or after August 15, 1987, to August 15, 1988, at \$26.50 and at reducing amounts thereafter (iii)	purchase 100,000 shares annually at a price not in excess of \$25.00 per share to August 15, 1987, and thereafter 4% of the outstanding balance on an annual basis (vii)
11.24%	\$ 25	on or after May 15, 1988, to May 15, 1989, at \$26.25 per share and at reducing amounts thereafter (iv)	purchase 80,000 shares annually at a price not in excess of \$25.00 per share to May 15, 1988, and thereafter 4% of the outstanding balance on an annual basis (vii)

Preferred Share Issue (i)	Par Value	Redeemable at the Company's Option (ii)	Sinking Fund and Purchase Fund Requirements (vii)
Convertible Second Preferred Shares			
6-3/8%	\$ 25	at \$26.00 per share on or before November 15, 1985, and at reducing amounts thereafter	purchase 216,000 shares annually at a price not in excess of \$25.00 per share (vii) (ix)
6-1/2%	\$ 25	at \$26.25 per share on or before February 15, 1985, and at reducing amounts thereafter (v)	purchase 240,000 shares annually at a price not in excess of \$25.00 per share (vii) (ix) (x)
12%	\$ 25	on or after May 15, 1985, and prior to May 15, 1987, at \$26.25 per share and at reducing amounts thereafter (vi)	purchase 204,000 shares annually commencing May 16, 1986, up to and including May 15, 1990, at a price not in excess of \$25.00 per share and thereafter 4% of the outstanding balance on an annual basis (vii) (ix)

- (i) The preferred shareholders are entitled to cumulative dividends at the respective rates set out in the titles of each issue.
- (ii) Redeemable at the indicated price per share plus accrued and unpaid dividends.
- (iii) The 15% Preferred Shares are retractable at the option of the holder by deposit of the shares on or before August 7, 1987, for redemption on August 15, 1987, at \$25.00 per share plus accrued and unpaid dividends.
- (iv) The 11.24% Preferred Shares are retractable at the option of the holder by deposit of shares on or before May 6, 1988, for redemption on May 15, 1988, at \$25.00 per share plus accrued and unpaid dividends.
- (v) The 6-1/2% Preferred Shares are redeemable prior to February 15, 1985, at \$26.25 per share only if the weighted average price at which the Class "A" common shares were traded was not less than 130% of the conversion price.
- (vi) The 12% Preferred Shares are redeemable on or after May 15, 1985, and prior to May 15, 1987, at \$26.25 per share only if the weighted average price at which the Class "A" common shares were traded was not less than 130% of the conversion price. They are also redeemable at the option of the Company on or after May 15, 1987, up to and including May 15, 1988, at \$26.25 per share and at reducing amounts thereafter.
- (vii) Sinking and purchase fund requirements cannot be purchased at prices in excess of the stated price per share plus accrued and unpaid dividends and costs of purchase.
- (viii) The Company, in addition to the cumulative mandatory sinking funds, may call for redemption and redeem annually, through the operation of non-cumulative optional sinking funds, 48,000 9-3/4% Preferred Shares on May 15 of each year and 72,000 9.76% Preferred Shares on November 15 of each year at par value plus accrued and unpaid dividends.

The cumulative mandatory sinking fund requirements of the 9-3/4% and 9.76% Preferred Shares may be satisfied otherwise by the Company through acquisition in the open market or by an invitation for tenders.

- (ix) The cumulative redeemable convertible second preferred shares are convertible to Class "A" common shares on the following conversion basis:

	Preferred to Common Conversion Basis	Convertible Until
6-3/8% Preferred Shares	1 for 4.2	November 15, 1986
6-1/2% Preferred Shares	1 for 2.586	February 15, 1990
12% Preferred Shares	1 for 3.38	May 15, 1990

During the year ended December 31, 1984, 216,406 6-3/8% Preferred Shares were converted into 908,905 Class "A" common shares, 350 6-1/2% Preferred Shares were converted into 905 Class "A" common shares and 100 12% Preferred Shares were converted into 338 Class "A" common shares.

- (x) During the year ended December 31, 1984, the Company purchased for cancellation 12,018 4-3/4% Preferred Shares, 36,825 7-3/4% Preferred Shares, 77,009 9-3/4% Preferred Shares, 100,390 9.76% Preferred Shares, 90,000 7.60% Preferred Shares and 243,400 6-1/2% Preferred Shares at an aggregate discount of \$1,604,000 which has been credited to contributed surplus.

10. COMMON SHARES

(a) AUTHORIZED

300,000,000 Class "A" common shares without par value, non-voting except for the election of seven directors.
2,004 Class "B" common shares of the par value of \$5.00 each.

(b) ISSUED AND OUTSTANDING

December 31	1984	1983	1984	1983
	(Number of shares)		(Thousands of dollars)	
Class "A" common	125,251,870	120,662,764	\$172,726	\$143,518
Class "B" common	1,665	1,665	8	8
	125,253,535	120,664,429	\$172,734	\$143,526

The Class "B" common shares are precluded upon the reduction or redemption of such shares or the winding-up of the Company from participating in assets of the Company to a greater extent than the amount paid up thereon. The Class "B" common shares are divided into four Groups which are allotted: Group I to utility companies, Group II to gas export companies, Group III to gas

producers and Group IV to four directors appointed by the Lieutenant Governor in Council of the Province of Alberta. Holders of Class "B" common shares have full voting rights except for the election of the seven directors elected by the holders of Class "A" common shares. The holders of Class "B" common shares Group IV have full voting rights in all circumstances.

(c) ISSUED DURING THE YEAR ENDED (CLASS "A" COMMON SHARES)

December 31	1984	1983	1984	1983
	(Number of shares)		(Thousands of dollars)	
For cash on exercise of options granted to officers and employees	42,559	382,104	\$ 291	\$ 2,224
For cash under the Dividend Reinvestment and Share Purchase Plan	3,636,399	2,126,795	23,496	14,517
On conversion of —				
6-3/8% Preferred Shares	908,905	1,953,349	5,410	11,627
6-1/2% Preferred Shares	905	7,913	9	77
12% Preferred Shares	338	5,408	2	40
	4,589,106	4,475,569	\$29,208	\$28,485

(d) RESERVED (CLASS "A" COMMON SHARES)

December 31	1984	1983
	(Number of shares)	
For conversion of the 6-3/8% Preferred Shares.	4,590,411	5,499,316
For conversion of the 6-1/2% Preferred Shares.	19,247,792	19,878,129
For conversion of the 12% Preferred Shares.	34,463,393	34,463,731
Under the incentive stock option plan there were no common shares reserved at December 31, 1984 (137,400 shares at December 31, 1983, at prices ranging from \$7.542 to \$9.458 per share).	—	137,400
Under the Incentive Stock Option Plan (1982) options are outstanding to officers and employees to purchase 4,047,100 common shares at prices ranging from \$6.625 to \$7.375 per share (3,903,600 shares at December 31, 1983, at prices ranging from \$6.625 to \$8.75 per share) with expiration dates between 1987 to 1993, and 910,500 common shares are reserved but unallocated (959,000 shares at December 31, 1983).	4,957,600	4,862,600
Under the Dividend Reinvestment and Share Purchase Plan.	4,281,345	2,251,950
	67,540,541	67,093,126

11. CUMULATIVE TRANSLATION ADJUSTMENT

(Thousands of dollars)

The movement in the cumulative translation adjustment account is as follows:

Year Ended December 31	1984	1983
Balance at beginning of year	\$ 8,889	\$ 15,535
Unrealized balance sheet translation gains (losses):		
Non-working capital items	5,138	(5,116)
Working capital items	(1,069)	(1,530)
	4,069	(6,646)
Realized (gains) losses:		
Subsidiaries sold or held for sale — United States	(21,603)	—
— Italy	14,321	—
	(7,282)	—
Balance at end of year	\$ 5,676	\$ 8,889

12. EXTRAORDINARY ITEMS

(a) FOR THE YEAR ENDED DECEMBER 31, 1984

(Thousands of dollars)

Gain on sale of Husky Oil Company (net of income taxes of \$87,000 and minority interest of \$69,337)	\$132,619
Provision for write-down to estimated net realizable value of certain assets and subsidiaries held for sale	(49,872)
Provision for write-down of certain other investments (net of income taxes of \$27,835)	(34,665)
Extraordinary income	\$ 48,082

In May 1984, Husky Oil Ltd. sold Husky Oil Company, its operating subsidiary in the United States, for net proceeds of \$625,695,000. This sale resulted in a gain to the Company of \$132,619,000. As required by the sale agreement, the refining and marketing sector of Husky Oil Company was retained. Husky has formalized plans to dispose of substantially all of these operations. At December 31, 1984, these subsidiaries and assets were carried at their net realizable value on the consolidated balance sheet as "subsidiaries and assets held for sale."

At December 31, 1984, the Company has formalized plans to dispose of its investments in valve and flow control manufacturing subsidiaries in the United States and Italy and certain other assets held for sale. The Company has provided \$49,872,000 with respect to the write-down of such investments to their net realizable value. The principal portion of the write-down, which

relates to the valve and flow control subsidiaries, amounts to \$44,000,000, a significant portion of which resulted from the decline in value of the lira in 1984 and 1983. At December 31, 1984, these subsidiaries were carried at their net realizable value in the consolidated balance sheet as "subsidiaries and assets held for sale."

At December 31, 1984, the Company provided for the write-down of certain of its other investments. This principally includes a write-down of the Company's investment in its telecommunications joint venture (NovAtel Communications Ltd.) by \$13,092,000 (net of income taxes of \$11,610,000) with respect to the costs associated with the design and development of a prototype mobile terminal acquired in early 1983 and the write-down by \$19,612,000 (net of income taxes of \$14,486,000) of the Company's remaining interest in its polyvinyl chloride plant, the recovery of which is not expected.

(b) FOR THE YEAR ENDED DECEMBER 31, 1983

(Thousands of dollars)

Provision for write-down of project costs	
Alaska Highway Gas Pipeline Project — Phase II (net of income taxes of \$6,543)	\$ 29,485
Oil Sands Mining Project (net of income taxes of \$18,591)	24,672
Arctic Pilot Project (net of income taxes of \$10,637)	11,524
	65,681
Provision for write-down of portfolio investment	23,264
Reduction in carrying value of certain petrochemical plants (net of income taxes of \$9,580)	16,272
Loss on sale of manufacturing facilities in the United States and Italy (net of income taxes of \$2,108 and minority interest of \$1,997)	10,388
Extraordinary loss	\$115,605

Certain of the accumulated project costs relating to Phase II of the Alaska Highway Gas Pipeline Project, the Oil Sands Mining Project and the Arctic Pilot Project were written down at December 31, 1983, together with anticipated future costs of \$5,616,000 (net of income taxes of \$5,184,000) to be incurred in relation to these projects. Due to the significant delay and uncertainty as to the timing of construction for these projects, the management of the Company determined that such accounting treatment was appropriate.

At December 31, 1983, the Company reduced the

carrying value of its previously acquired portfolio investment in Nu-West Development Corporation. The Company also recorded a reduction in the book value of a polyvinyl chloride plant and a malic and fumaric acid plant to reflect the depressed market conditions for the associated products.

In addition, the Company during the fourth quarter of 1983 disposed of a foundry located in Italy, a small energy equipment manufacturing plant in the United States and Husky Industries, Inc., a United States-based charcoal briquet manufacturing subsidiary of Husky Oil Ltd.

13. EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per common share before and after extraordinary items are calculated after deducting the dividend entitlement on preferred shares (\$77,992,000 in 1984 and \$79,563,000 in 1983) from the income before

extraordinary items and net income, respectively, and dividing the resulting amounts using the weighted average number of common shares outstanding during the period (123,203,000 in 1984 and 118,478,000 in 1983).

14. FUNDS PROVIDED FROM OPERATIONS

(Thousands of dollars)

Year Ended December 31	1984	1983
Income before extraordinary items	\$155,268	\$150,733
Add (deduct) items not resulting in a flow of funds		
Depreciation and depletion	289,283	307,959
Deferred income taxes	146,521	79,608
Minority interest	56,739	38,348
Equity component in allowance for funds capitalized during development and construction	(13,225)	(20,882)
Equity in losses of affiliated companies	6,367	8,605
Other (net)	17,728	23,008
Funds provided from operations	\$658,681	\$587,379

15. PENSION AND RETIREMENT PLANS

The Company and its subsidiaries maintain pension and retirement plans for substantially all employees.

At December 31, 1984, there were no significant unfunded liabilities with respect to any of these plans.

16. CONTINGENCIES AND COMMITMENTS

GAS TRANSPORTATION & MARKETING

Pursuant to decisions released by the National Energy Board in 1982 approximately \$108,572,000 (the Company's proportionate share) of preliminary Phase II expenditures on the Alaska Highway Gas Pipeline Project were approved. The after-tax amount of these expenditures, approximately \$72,669,000, is being amortized on a straight-line basis at an annual rate of 4% and earns a 16% pre-tax rate of return on the unamortized portion. In this regard, amounts collected, along with appropriate interest, will be repaid when Phase II commences operations. The Company's proportionate share of the after-tax contingent liability in this regard is \$16,030,000 at December 31, 1984 (\$10,204,000 at December 31, 1983).

PETROCHEMICALS

The Company (to the extent of 20%), Dow Chemical Canada Inc., Dome Petroleum Limited, Petro-Canada Inc.

and Shell Canada Resources Ltd. have agreed on a cost of service basis under take or pay contracts to purchase, for a term extending to December 31, 1998, ethane acquired by Alberta Gas Ethylene in excess of its requirements for its ethylene plants but not exceeding 44,000 barrels per day. Dome has agreed to act as agent for the sale of the Company's 20% share of the surplus ethane.

Contracts have been signed with a number of purchasers for the sale of the output of the second ethylene plant on substantially the same terms as the contract relating to output of the first plant. The Company is responsible for the purchase directly or indirectly from Alberta Gas Ethylene of approximately 38% of the output of the second ethylene plant, which amount is sufficient to meet the requirements of the linear low-density polyethylene plant.

17. SUBSEQUENT EVENT

On January 16, 1985, the Company issued and sold 4,000,000 9-1/8% Cumulative Redeemable Fixed/Floating Rate First Preferred Shares of a par value of \$25.00 each.

The net proceeds of approximately \$97,000,000 from this issue were used to reduce outstanding bank loans and notes classified as long term debt.

18. SUMMARIZED QUARTERLY FINANCIAL DATA

(Unaudited; thousands of dollars except for per share data)

Three Months Ended		March 31		June 30		September 30		December 31	
		1984	1983	1984	1983	1984	1983	1984	1983
Operating revenue	\$	946,200	1,066,684	959,629	922,373	1,032,416	890,473	855,288	943,475
Net operating income	\$	162,058	117,811	157,523	137,859	177,583	146,675	179,824	141,718
Income before extraordinary items	\$	34,964	34,158	38,992	37,343	37,216	36,902	44,096	42,330
Extraordinary items	\$	—	—	133,509	—	—	—	(85,427)	(115,605)
Net income (loss)	\$	34,964	34,158	172,501	37,343	37,216	36,902	(41,331)	(73,275)
Earnings per common share before extraordinary items									
Basic	\$	0.13	0.12	0.16	0.15	0.14	0.14	0.20	0.19
Fully diluted	\$	0.12	0.12	0.16	0.14	0.14	0.14	0.18	0.18
Earnings (loss) per common share after extraordinary items									
Basic	\$	0.13	0.12	1.25	0.15	0.14	0.14	(0.50)	(0.79)
Fully diluted	\$	0.12	0.12	0.80*	0.14	0.14	0.14	(0.29)	(0.78)
Market price per common share									
High	\$	7-7/8	9-1/2	7-5/8	9-1/2	7-3/4	8-1/2	8-1/8	7-1/2
Low	\$	6-3/8	7-5/8	6-1/2	7-5/8	6-5/8	6-1/2	6-3/4	6

* Restated to include the dilution effect in Husky Oil Ltd.

19. SEGMENTED INFORMATION

(a) FINANCIAL INFORMATION BY BUSINESS SEGMENT

(Thousands of dollars)

The management of the Company has determined that the following segments are the principal business segments of the Company:

Gas Transportation & Marketing	— transportation and marketing of natural gas.
Petroleum	— exploration, development, production and refining activities for crude oil and natural gas, together with consulting and research.
Petrochemicals	— production, transportation and marketing activities for various petrochemical products.
Manufacturing	— design, development, manufacture and marketing of various products primarily for use in the resource, transportation and telecommunications industries.

	1984	1983	1982
Revenue			
Gas Transportation & Marketing	\$1,492,489 39.3%	\$1,496,813 39.1%	\$1,236,773 35.3%
Petroleum	\$1,607,090 42.4%	\$1,674,872 43.8%	\$1,593,574 45.5%
Petrochemicals	\$ 587,685 15.5%	\$ 521,988 13.7%	\$ 458,161 13.2%
Manufacturing	\$ 106,269 2.8%	\$ 129,332 3.4%	\$ 211,558 6.0%
Consolidated	\$3,793,533 100%	\$3,823,005 100%	\$3,500,066 100%
Net operating income			
Gas Transportation & Marketing	\$ 347,410 51.3%	\$ 314,022 57.7%	\$ 247,813 48.4%
Petroleum	\$ 273,457 40.4%	\$ 178,967 32.9%	\$ 170,991 33.4%
Petrochemicals	\$ 63,392 9.4%	\$ 50,257 9.2%	\$ 53,608 10.5%
Manufacturing	\$ (7,271) (1.1%)	\$ 817 0.2%	\$ 39,287 7.7%
Consolidated	\$ 676,988 100%	\$ 544,063 100%	\$ 511,699 100%
Identifiable assets			
Gas Transportation & Marketing	\$2,425,761 37.7%	\$2,350,681 34.6%	\$2,352,479 37.1%
Petroleum	\$2,120,960 33.0%	\$2,708,467 39.8%	\$2,595,298 41.0%
Petrochemicals	\$1,520,289 23.7%	\$1,291,129 19.0%	\$ 901,368 14.3%
Manufacturing	\$ 154,616 2.4%	\$ 243,848 3.6%	\$ 299,537 4.7%
Other	\$ 206,263 3.2%	\$ 201,931 3.0%	\$ 184,347 2.9%
Consolidated	\$6,427,889 100%	\$6,796,056 100%	\$6,333,029 100%

	1984	1983	1982
Plant, property and equipment additions			
Gas Transportation & Marketing	\$ 79,969 12.8%	\$ 154,612 16.6%	\$ 508,408 41.6%
Petroleum	\$ 312,736* 50.1%	\$ 373,881* 40.0%	\$ 374,806* 30.7%
Petrochemicals	\$ 220,592 35.4%	\$ 376,587 40.3%	\$ 268,801 22.0%
Manufacturing and Other	\$ 10,776 1.7%	\$ 28,727 3.1%	\$ 69,938 5.7%
Consolidated	\$ 624,073 100%	\$ 933,807 100%	\$ 1,221,953 100%

(b) FINANCIAL INFORMATION BY GEOGRAPHIC AREA

(Thousands of dollars)

	1984	1983	1982
Revenue			
Canada	\$2,941,760 77.5%	\$2,713,643 71.0%	\$2,301,980 65.8%
United States	\$ 754,983 19.9%	\$ 958,839 25.1%	\$1,019,964 29.1%
Other	\$ 96,790 2.6%	\$ 150,523 3.9%	\$ 178,122 5.1%
Consolidated	\$3,793,533 100%	\$3,823,005 100%	\$3,500,066 100%
Net operating income			
Canada	\$ 655,588 96.8%	\$ 518,613 95.3%	\$ 420,271 82.1%
United States	\$ 24,797 3.7%	\$ 26,835 4.9%	\$ 72,174 14.1%
Other	\$ (3,397) (0.5%)	\$ (1,385) (0.2%)	\$ 19,254 3.8%
Consolidated	\$ 676,988 100%	\$ 544,063 100%	\$ 511,699 100%
Identifiable assets			
Canada	\$6,210,924 96.6%	\$5,684,591 83.6%	\$5,100,923 80.5%
United States	\$ 157,132 2.5%	\$ 888,003 13.1%	\$ 930,269 14.7%
Other	\$ 59,833 0.9%	\$ 223,462 3.3%	\$ 301,837 4.8%
Consolidated	\$6,427,889 100%	\$6,796,056 100%	\$6,333,029 100%

* Net of Petroleum Incentive Program grants of \$161,703 in 1984, \$97,614 in 1983 and \$47,972 in 1982.



TEN-YEAR FINANCIAL REVIEW

(Thousands of dollars except for share data)

	1984	1983
Statement of Income		
Operating revenue	\$3,793,533	3,823,005
Operating expenses	\$2,756,599	2,916,826
Depreciation and depletion	\$ 289,283	307,959
Petroleum and gas revenue tax	\$ 55,550	43,610
Loss (gain) on foreign currency translation	\$ 15,113	10,547
Net operating income	\$ 676,988	544,063
Equity in earnings (losses) of affiliated companies	\$ (6,367)	(8,605)
Allowance for funds used during development and construction	\$ 31,800	50,168
Other (income) expenses	\$ (1,551)	1,434
Interest expense (net)	\$ 341,765	317,031
Income before income taxes, minority interest and extraordinary items	\$ 362,207	267,161
Income taxes	\$ 150,200	78,080
Minority interest	\$ 56,739	38,348
Income before extraordinary items	\$ 155,268	150,733
Extraordinary income (loss)	\$ 48,082	(115,605)
Net income	\$ 203,350	35,128
Assets		
Working capital at year end	\$ 38,524	59,273
Additions to plant, property and equipment	\$ 624,073	933,807
Investment in plant, property and equipment (cost)	\$6,080,891	6,589,882
Investment in plant, property and equipment (net)	\$5,190,296	5,541,801
Other assets	\$ 123,712	69,100
Total assets	\$6,427,889	6,796,056
Capital Employed		
Long term debt (less due within one year)	\$2,874,278	3,404,578
Deferred income taxes	\$ 496,802	434,729
Minority interest	\$ 560,954	485,075
Shareholders' equity		
Preferred shareholders	\$ 780,594	800,907
Common shareholders	\$ 742,923	639,413
Share Data		
Earnings per common share before extraordinary items		
Basic	\$ 0.63	0.60
Fully diluted	\$ 0.60	0.58
Earnings per common share after extraordinary items		
Basic	\$ 1.02	(0.38)
Fully diluted	\$ 0.77	(0.38)
Dividends paid per Class "A" common share	\$ 0.40	0.40
Average common shares outstanding during year (thousands)	123,203	118,478
Number of common shares outstanding at year end (thousands)	125,254	120,664
Book value per common share	\$ 5.93	5.30
Market value per common share		
High	\$ 8-1/8	9-1/2
Low	\$ 6-3/8	6

1982	1981	1980	1979	1978	1977	1976	1975
3,500,066	2,666,120	2,114,520	1,218,541	431,952	348,779	271,397	141,844
2,702,220	2,059,457	1,586,124	871,241	280,802	186,725	146,992	66,338
246,315	185,517	157,207	93,817	37,217	38,599	29,493	20,861
33,571	16,105	—	—	—	—	—	—
6,261	17,347	7,734	231	(6,168)	(2,184)	—	—
511,699	387,694	363,455	253,252	120,101	125,639	94,912	54,645
5,038	14,054	16,267	18,580	16,924	3,184	1,620	1,993
85,928	74,398	17,399	21,180	23,777	13,831	8,544	4,030
3,108	11,916	6,720	2,076	3,970	—	904	—
348,376	248,869	93,606	64,677	41,113	28,055	29,470	25,015
251,181	215,361	296,795	226,259	115,719	114,599	74,702	35,653
65,221	45,281	103,700	72,347	24,070	49,372	30,338	9,188
35,436	42,639	51,320	38,629	5,743	7,756	4,947	415
150,524	127,441	141,775	115,283	85,906	57,471	39,417	26,050
—	—	—	—	—	—	—	—
150,524	127,441	141,775	115,283	85,906	57,471	39,417	26,050
16,168	11,889	60,457	121,512	125,431	64,305	87,279	6,614
1,221,953	1,371,230	569,389	313,905	233,154	233,988	152,244	108,306
5,658,708	4,338,590	2,995,523	2,428,530	1,368,054	1,110,991	863,007	680,009
4,870,523	3,753,956	2,549,880	2,114,209	1,137,686	923,420	712,674	558,472
143,332	197,641	126,568	110,578	68,421	46,358	29,120	26,277
6,333,029	5,012,175	3,671,523	3,144,422	2,062,096	1,443,625	945,356	657,918
2,740,612	2,206,283	1,043,009	1,038,193	821,091	744,255	411,311	377,369
388,632	359,181	319,686	251,813	90,754	62,653	40,747	20,248
495,383	441,649	442,819	412,270	218,208	15,915	10,293	446
826,122	441,235	492,723	363,581	392,593	210,597	142,254	45,413
692,479	627,846	527,295	402,061	318,245	270,546	239,936	162,674
0.80	0.88	1.08	0.98	0.77	0.55	0.47	0.36
0.74	0.80	0.90	0.81	0.71	0.53	0.45	0.35
0.80	0.88	1.08	0.98	0.77	0.55	0.47	0.36
0.74	0.80	0.90	0.81	0.71	0.53	0.45	0.35
0.40	0.38666	0.36	0.30833	0.25907	0.2448	0.20453	0.17333
114,341	107,583	99,001	89,223	85,083	82,263	66,063	64,032
116,189	110,961	103,351	92,253	87,354	83,474	80,807	64,452
5.96	5.66	5.10	4.36	3.64	3.24	2.97	2.52
9-7/8	14-3/8	13-3/8	9-3/8	5-1/2	5-1/2	4-7/8	4-5/8
5-1/8	7-1/4	8	4-7/8	4-5/8	4-1/4	3-5/8	3-3/8



CORPORATE DIRECTORY

BOARD OF DIRECTORS

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Robert Blair — President and Chief Executive Officer of the Company
Arthur J. E. Child — President and Chief Executive Officer, Burns Foods Limited, Calgary, Alberta (Food Processor)
Donald R. Getty — President, D. Getty Investments Ltd., Edmonton, Alberta (Resource Development and Investments)
J. Joseph Healy — President, Healy Motors Limited, Edmonton, Alberta (Transportation)
Harley N. Hotchkiss — President, Harman Resources Ltd., Calgary, Alberta (Private Investor — Oil and Gas, Real Estate and Agricultural Interests)
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John R. McCaig — Chairman and Chief Executive Officer, Trimac Limited, Calgary, Alberta (Transportation and Energy Resources)
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A. Ernest Pallister — President, Pallister Resource Management Ltd., Calgary, Alberta (Resource Management)
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Robert L. Pierce — Executive Vice President of the Company
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Ronald D. Southern — Deputy Chairman and Chief Executive Officer, ATCO Ltd., Calgary, Alberta (Manufacturing, Utilities, Natural Resources and Real Estate)

COMPANY OFFICERS

NOVA CORPORATE OFFICERS

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John E. Feick
 Senior Vice President
Dianne I. Hall
 Senior Vice President
William C. Rankin
 Senior Vice President and Controller
Bruce W. Simpson
 Senior Vice President
John W. F. Cowell, M.D.
 Vice President, Occupational Health and Safety
Georges Dubé
 Vice President, General Counsel and Corporate Secretary
Richard C. Milner
 Vice President and Treasurer
Brian F. Olson
 Vice President
John Patterson
 Vice President and Assistant Controller
Joan A. Dennis
 Assistant Secretary
Thomas G. Milne
 Assistant Treasurer

SENIOR OFFICERS, ALBERTA GAS TRANSMISSION DIVISION

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 Division Senior Vice President
Robert B. Snyder
 Division Senior Vice President

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 President and Chief Executive Officer, Pan-Alberta Gas Ltd.
John E. Feick
 President, Novacor Chemicals Ltd.
C. Kent Jespersen
 President, Foothills Pipe Lines (Yukon) Ltd.
Donald G. Olafson
 President, Novacorp International Consulting Ltd.
Arthur R. Price
 President, Husky Oil Ltd.
William C. Rankin
 Chairman and Chief Executive Officer, NovAtel Communications Ltd.

PRINCIPAL COMPANIES IN THE NOVA GROUP

GAS TRANSPORTATION & MARKETING

Alberta Gas Transmission Division (100%)
Trans Québec & Maritimes Pipeline Inc. (50%)
Foothills Pipe Lines (Yukon) Ltd. (50%)
Pan-Alberta Gas Ltd. (50.005%)

PETROLEUM

Husky Oil Ltd. (67%)
Novalta Resources Ltd. (100%)

PETROCHEMICALS

Novacor Chemicals Ltd. (100%)
The Alberta Gas Ethylene
Company Ltd. (100%)
Alberta Gas Chemicals Ltd. (50%)
Diamond Shamrock Alberta Gas (50%)
A. G. Pipe Lines Companies (100%)

MANUFACTURING

NOVA Energy Systems Inc. (100%)
Grove Valve and Regulator Company (100%)
WAGI International S.p.A. (100%)
NovAtel Communications Ltd. (50%)
Western Star Trucks Inc. (50%)
CNG Fuel Systems (50%)

CONSULTING & RESEARCH

Novacorp International Consulting Ltd. (100%)
NOVA/Husky Research
Corporation Ltd. (50%/50%)
Noval Enterprises Division of NOVA (100%)

SOLICITORS

HOWARD, MACKIE
Calgary, Alberta

AUDITORS

CLARKSON GORDON
Calgary, Alberta

Design/Production
McKim Advertising Ltd.

Printing
Mitchell Press Limited

PRINCIPAL OFFICES

CORPORATE HEADQUARTERS

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Calgary, Alberta T2P 2N6
(403) 290-6000
Telex 038-21503

OTHER PRINCIPAL OFFICES

ALBERTA GAS TRANSMISSION DIVISION
Operations Office
9888 Jasper Avenue
P. O. Box 2330
Edmonton, Alberta T5J 2R1
(403) 423-6111

FOOTHILLS PIPE LINES (YUKON) LTD.
Suite 3000
707 Eighth Avenue S.W.
Calgary, Alberta T2P 3W8
(403) 294-4111

HUSKY OIL LTD.
P. O. Box 6525, Postal Station D
Calgary, Alberta T2P 3G7
(403) 298-6111

NOVACOR CHEMICALS LTD.
Suite 1600
734 Seventh Avenue S.W.
Calgary, Alberta T2P 3P9
(403) 290-8977

NOVACORP INTERNATIONAL
CONSULTING LTD.
P. O. Box 2535, Postal Station M
Calgary, Alberta T2P 2N6
(403) 290-6000

NOVATEL COMMUNICATIONS LTD.
Western Canadian Place
700 Ninth Avenue S.W.
Calgary, Alberta T2P 3V4
(403) 298-0444

PAN-ALBERTA GAS LTD.
Suite 500
707 Eighth Avenue S.W.
Calgary, Alberta T2P 3V3
(403) 234-6600





NOVA Corporate:

- ☐ Current Annual Report
- ☐ Current Interim Reports
- ☐ Corporate History
- ☐ Corporate Profile
- ☐ Operations Profile
- ☐ Dividend Reinvestment and Share Purchase Plan

Business Sectors:

Gas Transportation & Marketing

- ☐ Alberta Gas Transmission Division — Fact Card
- ☐ Foothills Pipe Lines (Yukon) Ltd. — The Alaska Highway Gas Pipeline Project
- ☐ Pan-Alberta Gas — Natural Gas Overview

Petroleum (Husky Oil Ltd.)

- ☐ Current Annual Report
- ☐ Current Interim Reports
- ☐ Credentials
- ☐ Bi-Provincial Project
- ☐ Lloydminster Refinery

Petrochemicals

- ☐ Petrochemicals — Sector Brochure
- ☐ Novacor Technical Centre

Manufacturing

- ☐ NovAtel Communications Ltd.
- ☐ Western Star Background
- ☐ CNG Fuel Systems

Consulting & Research

- ☐ Novacorp International Consulting Ltd.
- ☐ NOVA/Husky Research Corporation
- ☐ Prairie Sun Greenhouses

To receive any of the above information, please indicate your selection in the boxes provided and return form to:

Office Services — Distribution
NOVA, AN ALBERTA CORPORATION
P.O. Box 2535, Postal Station M
Calgary, Alberta T2P 2N6

Name: _____

Firm: _____

Address: _____



Second Quarter Interim Report

Six months ended June 30, 1985



CONSOLIDATED FINANCIAL HIGHLIGHTS

(Unaudited; thousands of dollars except for per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	1985	1984	1985	1984
Statement of Income				
Operating revenue	\$808,640	\$959,629	\$1,682,322	\$1,905,829
Net operating income	\$164,055	\$157,523	\$ 327,080	\$ 319,581
Income before extraordinary item	\$ 30,726	\$ 38,992	\$ 62,319	\$ 73,956
Extraordinary item	\$ (58,921)	\$133,509	\$ (58,921)	\$ 133,509
Net income (loss)	\$ (28,195)	\$172,501	\$ 3,398	\$ 207,465
Preferred share dividend entitlement	\$ 21,507	\$ 19,604	\$ 42,720	\$ 39,170
Net income (loss) available to common shareholders	\$ (49,702)	\$152,897	\$ (39,322)	\$ 168,295
Share Data				
Earnings (loss) per common share				
Before extraordinary item				
Basic	\$ 0.07	\$ 0.16	\$ 0.15	\$ 0.29
Fully diluted	\$ 0.07	\$ 0.16	\$ 0.15	\$ 0.28
After extraordinary item				
Basic	\$ (0.39)	\$ 1.25	\$ (0.31)	\$ 1.38
Fully diluted	\$ (0.39)	\$ 0.80	\$ (0.31)	\$ 0.92
Dividends paid per common share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20
Average number of common shares outstanding (thousands)			126,738	122,032

REPORT TO SHAREHOLDERS

PRESIDENT'S MID-YEAR REVIEW. The income performance for the first half, at \$326 million before interest, taxes, minority interest, other income and extraordinary item, is 5% below the 1984 first half. This is quite sufficient to keep all our business proceeding properly and the Company performing each of its operations fully. Adequate funds are also being generated to make some investments for the future and there is no net requirement for new borrowing during the year.

Interest expense for the first half was reduced 14% from 1984. Income tax accruals and the minority interest deduction, however, have each increased over 20% mainly because of increased profits in Husky Oil Ltd. (57% owned). Net income before extraordinary item for the first half is therefore down 16% to \$62 million and after preferred dividends is further reduced to \$20 million or 15 cents per common share.

At this current level of earnings per share, the common share market price is no doubt supported by the common dividend rate and also the market's expectation of future improvement in earnings. Accordingly, I will concentrate these mid-year comments on those future projections.

In Gas Transportation and Marketing, as those activities are segregated in the Consolidated Statement of Income, NOVA is in a rather level period, as indicated by the 1% annual growth rate in net operating income. Volumes of natural gas sold and transported have risen to record levels through a great deal of effort. The size of gas plant in service, which largely determines NOVA's profits in this sector, is large enough to handle current business and therefore growth in income is expected to be slow for the immediate future. Large increases in our gas transportation plant are planned in future when the next major

round of new Canadian gas exports to the United States takes place, forecast variously to start in the years ranging from 1988 to the early 1990s.

The need of the United States for future additional Canadian gas supply is recognized, but the timing is difficult to fix during the present situation of natural gas surpluses and low prices in the U.S. gas industry. The Alaska Natural Gas Transportation System is on hold pending substantial gas price improvement in the U.S. or resumed concern about domestic energy supply sufficiency by that government.

In our Petroleum sector, Husky is proving the merit of earlier decisions to increase its investment in heavy oil. In every year of the 1980s, Husky's net working interest in heavy oil production is increasing by several thousand barrels per day, one of the best such records in Canada in these years. Husky's profit contribution is rising correspondingly. The present trend and forecasts indicate annual improvement in earnings through Husky equivalent to about 10 cents per NOVA share after tax. Fluctuation of world oil price and interest rates makes forecasting difficult but Husky's good balance sheet is important.

In Petrochemicals, NOVA faces its most serious problem with respect to the effect on consolidated earnings per share. Our new ethylene and polyethylene plants are operating extremely well, but the slump in polyethylene market prices since July 1984 just began to correct in July 1985. Our petrochemicals sector, a more than steady contributor to profits through 1983, is making no significant contribution currently.

The market price levels of polyethylene began improving in July and the expectation is that the apparently firm price increases will have full effect in the fourth quarter of 1985. This trend will be enhanced by continuing improvement in volume, grade and marketing performance in our operations. Moving beyond our present situation in petrochemicals, the

efforts of NOVA's top management are concentrated on building a stronger corporate position in this industry for the future.

The opposite side to the recent, sudden petrochemical price fall is that price levels can move up equally fast and directly to earnings. I believe that NOVA will have a distinctly better report to give at the close of 1985 and progressively better results after that, but prefer to hold that out as a generally positive trend rather than to forecast. We anticipate considerable change in the petrochemical industry structure in the next 12 months or so, with Alberta gas-based ethylene and derivatives keeping a relatively good position within the worldwide industry. We have a great need to be at the forefront of these commercial developments.

In Manufacturing, our valve and flow control companies are again contributing profit and so is our interest in Western Star Trucks Inc. (50% owned). NovAtel Communications Ltd. (50% owned) should also move into a profitable position in 1986. I believe that the overall trend is positive at this time.

We estimate that 1985 full-year earnings will be well below the 60 cents to 63 cents per share level of 1983 and 1984, but I also believe they will be moving upward in the second half of 1985 and give expectation of better results for 1986.

Following Husky's redemption of its convertible preferred shares in June, it has been necessary for NOVA consolidated to record the non-cash deemed accounting loss, which is described in the Financial Review section. I regard this as a necessary accounting statement, but not significant to NOVA's business outlook.

The Board of Directors' designation in June of myself to the additional position of Chairman adds the status inherent in that title to the positions which can be used by NOVA's management in negotiations with others.

The common loyalty to our group of com-

panies among all levels of employees is very strong and is one of the good factors at work for the shareholders.



FINANCIAL REVIEW. Consolidated income before extraordinary item of \$62.3 million for the six months ended June 30, 1985, was down \$11.7 million or 16% from the \$74.0 million reported in 1984. Improved earnings from the Petroleum segment's increased heavy crude oil revenue and lower interest expense were more than offset by low world commodity prices in the Petrochemicals segment. New polyethylene price levels in July are higher, indicating improvement in Petrochemicals operating results through the second half of 1985.

After the deduction of preferred share dividend entitlement of \$42.7 million, as compared with \$39.2 million in 1984, basic earnings per common share before extraordinary item were 15 cents in 1985 on a total of 126.7 million average common shares outstanding, as compared with 29 cents on a total of 122.0 million average common shares outstanding in 1984. Earnings per common share before extraordinary item on a fully diluted basis were 15 cents in 1985 compared with 28 cents in 1984.

In the second quarter of 1985, the Company recorded an extraordinary non-cash deemed accounting loss of \$58.9 million relating to the dilution of its ownership in Husky Oil Ltd. The dilution from approximately 67% to 57% was due to the conversion to common shares of Husky's 13% convertible preferred shares in June. This deemed loss reduced consolidated net income after extraordinary item to \$3.4 million which, after the deduction of preferred share dividend entitlement, resulted in a

loss after extraordinary item of 31 cents per common share (basic and fully diluted).

In 1984, the Company reported an extraordinary gain of \$133.5 million arising from the sale of United States petroleum assets. This increased consolidated net income after extraordinary item to \$207.5 million which, after the deduction of preferred share dividend entitlement, resulted in basic earnings per common share after extraordinary item of \$1.38 (92 cents fully diluted).

Consolidated operating revenue to June 30, 1985, was \$1,682.3 million, down \$223.5 million or 12%. This decline is principally due to the sale of Husky's United States petroleum properties in May 1984. Revenue increases occurred through larger volumes of gas exported to the United States, increased production of heavy oil and revenue from the Company's two new petrochemical plants—the second ethylene plant and the linear low-density polyethylene plant. Revenue from the Company's valve and flow control manufacturing operations has been reflected during the second quarter, resulting from the Company's decision to continue ownership.

Consolidated operating expenses were down \$230.8 million principally as a result of the sale of the United States petroleum operations in 1984 as offset by the operations of the two new petrochemical plants and increased gas exports to the United States.

The loss on foreign currency translation amounted to \$11.3 million, versus \$6.5 million for the comparative period in 1984. However, after allowing for minority interest, amounts billed under cost-of-service contracts and income taxes, this had an adverse effect of only 4 cents per common share at the end of the second quarter of 1985 as compared with an adverse effect of 3 cents per common share in 1984.

Net operating income was \$327.1 million in 1985 compared with \$319.6 million for the same period in 1984. The improvement reflects

the operating return during 1985 from the second ethylene plant, higher earnings from heavy oil production and improved results from the valve manufacturing companies. This was partially offset by the reduction in net operating income from Petrochemicals.

NOVA's share in losses of affiliated companies, accounted for on an equity basis, was \$3.3 million in 1985, as compared with \$5.0 million in 1984. This improvement was attributable to better margins on methanol production and increased sales of transportation equipment.

Allowance for funds used during development and construction was down \$28.0 million from the comparative period in 1984, principally the result of the completion of the second ethylene plant in mid-1984.

Net interest expense of \$159.2 million, compared with \$184.4 million for 1984, was down \$25.2 million, principally due to the reduction in outstanding debt.

Income tax expense of \$76.1 million increased by \$12.5 million as a result of the higher earnings in the Petroleum segment and increased income taxes billed and recovered under cost-of-service contracts.

Funds from operations for the period of \$272.0 million represent a decline of \$50.8 million or 16% from the same period in 1984. This decline was principally due to the sale of the United States petroleum operations in May 1984 together with reduced funds generated from Petrochemicals.

APPOINTMENTS. At the June 14 meeting of NOVA's Board of Directors, S. Robert Blair, president and chief executive officer, was elected to the additional position of chairman of the board. H. J. Sanders Pearson, who had served as chairman since 1974, was elected vice chairman. Mr. Pearson chairs the board's management resources and compensation committee.

On June 5, Del Lippert was appointed president, chief operating officer and director

of NovAtel Communications Ltd. Mr. Lippert brings to NovAtel extensive experience in the development and marketing of services and systems to industry and government in 34 countries throughout the world.

PETROCHEMICALS. The pricing climate for all of the petrochemical commodities marketed through Novacor Chemicals Ltd. (100% owned) has recently shown some improvement.

Polyethylene prices, down sharply over the first half from levels achieved a year ago, are showing a noticeable upward trend in the third quarter, and Novacor's management is optimistic that this will continue into 1986. The plant has been operating very efficiently.

Methanol prices began increasing during the first half and are holding steady. Alberta Gas Chemicals Ltd. (50% owned) began selling a methanol-isobutanol blend of gasoline at 16 Ontario service stations in June. The new fuel, sold under the brand name V-Plus, opens another domestic market for these natural-gas-based chemicals.

The 50%-owned polyvinyl chloride plant at Fort Saskatchewan, Alberta, has been producing consistently at near capacity. Employees there recently marked a record four years without a lost-time accident.

Novacor's officers are continuing to work hard with industry and government in Canada and the United States to demonstrate the mutual benefits of a freer trading relationship in petrochemicals between the two countries.

PETROLEUM. Effective July 2, 1985, NOVA holds approximately 57% of the outstanding common shares of Husky Oil Ltd. The reduction in ownership from the previous 67% reflects the conversion of Husky's 13% Cumulative Redeemable Convertible Retractable Junior Preferred Shares, Series A. That company's dividend was increased to \$0.09 per common share paid quarterly beginning June 26, 1985.

On June 7, Husky announced an agreement

for sale of its wholly owned U.S. subsidiary, RMT Properties Inc., to Flying J Inc. of Brigham City, Utah. The properties include two U.S. refineries and a network of car/truck stops in the western United States. This transaction is scheduled to close in September 1985.

GAS TRANSPORTATION. The Alberta Gas Transmission Division's winter construction program, completed in late May, represented some 46 pipeline projects, comprising 79 miles of pipeline, and expenditures of \$26.2 million. Work on three compressor station projects is continuing as part of the summer construction program.

As of June 30, 1985, \$34.0 million had been expended from a total 1985 capital budget of about \$92.0 million.

Major projects completed this year include the Silver Creek compressor station and the Airdrie service centre.

On May 17, Trans Québec & Maritimes Pipeline Inc. (50% owned) finalized a transaction relating to the public offering of \$85 million of 11.70% First Mortgage Bonds, Series C, to mature on November 23, 1990.

August 6, 1985



CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited except for December 31, 1984; thousands of dollars)

	June 30 1985	December 31 1984	June 30 1984
Assets			
Current assets	\$ 915,610	\$1,010,862	\$1,059,999
Investments and advances	118,749	103,019	105,940
Plant, property and equipment (net)	5,225,835	5,190,296	5,179,268
Other assets	156,032	123,712	135,387
	\$6,416,226	\$6,427,889	\$6,480,594
Liabilities			
Current liabilities	\$ 863,837	\$ 972,338	\$1,017,542
Long term debt	2,852,337	2,874,278	2,869,570
Deferred income taxes	519,603	496,802	446,671
Minority interest in subsidiary companies	614,096	560,954	565,801
	4,849,873	4,904,372	4,899,584
Shareholders' Equity			
Preferred shareholders	872,676	780,594	789,348
Common shareholders	693,677	742,923	791,662
	1,566,353	1,523,517	1,581,010
	\$6,416,226	\$6,427,889	\$6,480,594



CONSOLIDATED STATEMENT OF INCOME

(Unaudited; thousands of dollars except for per share data)

	Total	
Six Months Ended June 30	1985	1984
Revenue		
Operating revenue	\$1,682,322	\$1,905,829
Intersegment revenue	—	—
	1,682,322	1,905,829
Costs and expenses		
Operating expenses	1,164,918	1,395,741
Intersegment expenses	—	—
Depreciation and depletion	151,022	157,819
Petroleum and gas revenue tax	28,012	26,175
Loss on foreign currency translation	11,290	6,513
	1,355,242	1,586,248
Net operating income	327,080	319,581
Equity in losses of affiliated companies	(3,280)	(5,023)
Allowance for funds used during development and construction	2,214	30,169
	(1,066)	25,146
Income before the undernoted items	326,014	344,727
Other income	(1,728)	(1,548)
Interest expense		
(net of interest income and interest capitalized during construction: 1985—\$22,224; 1984—\$22,491)	159,165	184,362
Income before income taxes, minority interest and extraordinary item	168,577	161,913
Income taxes		
Current	47,299	(2,416)
Deferred	28,831	66,026
	76,130	63,610
Income before minority interest and extraordinary item	92,447	98,303
Minority interest	30,128	24,347
Income before extraordinary item	62,319	73,956
Extraordinary item	(58,921)	133,509
Net income	\$ 3,398	\$ 207,465
Earnings (loss) per common share		
Before extraordinary item		
Basic	\$ 0.15	\$ 0.29
Fully diluted	\$ 0.15	\$ 0.28
After extraordinary item		
Basic	\$ (0.31)	\$ 1.38
Fully diluted	\$ (0.31)	\$ 0.92

Gas Transportation & Marketing		Petroleum		Petrochemicals		Manufacturing	
1985	1984	1985	1984	1985	1984	1985	1984
\$816,780	\$688,110	\$460,197	\$889,638	\$376,382	\$282,044	\$28,963	\$46,037
1,512	2,246	8,898	4,447	—	—	—	—
818,292	690,356	469,095	894,085	376,382	282,044	28,963	46,037
592,771	473,717	235,740	636,023	312,389	240,227	24,018	45,774
6,198	3,148	426	302	3,786	3,243	—	—
43,764	42,182	67,010	96,226	38,533	15,262	1,715	4,149
—	—	28,012	26,175	—	—	—	—
3,632	1,619	5,838	3,554	1,820	1,340	—	—
646,365	520,666	337,026	762,280	356,528	260,072	25,733	49,923
171,927	169,690	132,069	131,805	19,854	21,972	3,230	(3,886)
—	—	—	—	(1,220)	(1,533)	(2,060)	(3,490)
2,214	1,508	—	—	—	28,661	—	—
2,214	1,508	—	—	(1,220)	27,128	(2,060)	(3,490)
\$174,141	\$171,198	\$132,069	\$131,805	\$ 18,634	\$ 49,100	\$ 1,170	\$ (7,376)

Note: Income taxes are provided on income from Gas Transportation & Marketing and certain Petrochemicals operations only to the extent that they are included in allowable costs of service under such contracts.



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited; thousands of dollars)

Six Months Ended June 30	1985	1984
Source of Funds		
Operations	\$272,038	\$ 322,863
Sale of subsidiary	—	539,937
Add working capital deficiency of subsidiary sold	—	13,224
Long term debt	144,284	195,438
Preferred shares	100,000	—
Common shares	15,950	14,536
Less common shares issued on conversion of preferred shares	(1,951)	(2,670)
Other	(2,169)	1,020
	\$528,152	\$1,084,348
Use of Funds		
Plant, property and equipment		
Gas Transportation & Marketing	\$ 38,498	\$ 36,335
Petroleum	128,586	137,085
Petrochemicals	6,956	137,368
Manufacturing and Other	3,130	3,472
	177,170	314,260
Other assets	6,694	4,775
Investments and advances	16,314	17,940
Reduction of long term debt	207,790	676,976
Purchase of preferred shares for cancellation	5,272	7,973
Redemption of preferred shares issued by subsidiaries	225	225
Dividends to—		
Shareholders	69,422	63,654
Minority shareholders of subsidiaries	16,846	15,361
Capital stock issue expenses	1,673	—
Reconsolidation of subsidiaries previously held for sale	13,497	—
Working capital increase (decrease)	13,249	(16,816)
	\$528,152	\$1,084,348

CORPORATE OFFICERS

S. Robert Blair
*Chairman, President
and Chief Executive Officer*

Robert L. Pierce
Executive Vice President

John E. Feick
Senior Vice President

Dianne I. Hall
Senior Vice President

William C. Rankin
Senior Vice President and Controller

Bruce W. Simpson
Senior Vice President

John W. F. Cowell, M.D.
*Vice President,
Occupational Health and Safety*

Georges Dubé
*Vice President, General Counsel
and Corporate Secretary*

Richard C. Milner
Vice President and Treasurer

Brian F. Olson
Vice President

John Patterson
Vice President and Assistant Controller

Joan A. Dennis
Assistant Secretary

Thomas G. Milne
Assistant Treasurer

*Note: Peter C. Flynn and Edmond A. Lemieux,
both vice presidents, are currently assigned
on a full-time basis to affiliated companies.*

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

The Company has a Dividend Reinvestment and Share Purchase Plan that provides common and preferred shareholders with an opportunity to reinvest their cash dividends in Class "A" common shares at 95% of the weighted average price of Class "A" shares sold on The Toronto Stock Exchange on the dividend payment date. Shareholders may also make optional cash payments and acquire additional Class "A" shares without paying brokerage commissions.

Those wishing to obtain further information about the plan may contact: National Trust Company, Stock Transfer Department, Suite 1008, 320 Eighth Avenue S.W., Calgary, Alberta T2P 2Z2. Telephone (403) 263-1460.

The Dividend Reinvestment and Share Purchase Plan is not available to residents of the United States of America or any of the territories or possessions thereof.

INQUIRIES

Shareholders and others wishing to obtain additional information about the Company and its operations may direct inquiries to the Manager, Investor Relations, at the head office address in Calgary or call the Company's toll-free number in Canada: (800) 661-9264.

RAPPORTS EN FRANÇAIS

Les personnes désirant des exemplaires en français du présent rapport sont priées de s'adresser au directeur, Relations avec les investisseurs, de la Compagnie par lettre, ou par téléphone du Canada: (800) 661-9264 (sans frais d'interurbain).

Second Quarter Interim Report

Six months ended June 30, 1985

**NOVA
AN ALBERTA
CORPORATION**



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